EXECUTIVE SUMMARY

I. Introduction

Corporate Debt Restructuring (CDR) is an effective financial tool for minimizing the adverse effects of default on the borrowers as well as lenders. This is especially important, as the credit portfolio of banks and financial institutions are created mainly out of the resources raised from the general public.

II. Statement of the Problem (Issues and Hypothesis)

Indian Banking is passing through a very rough phase, as Gross NPAs of banks have surpassed 3.85 % of the gross advances as on 31st March 2014 (up from 3.26% as on 31st March 2013). This is impacting profitability of the banks adversely. A section of the stake holders see CDR as a solution for impaired assets, although contrarians feel that it is nothing but throwing good money after bad money.

The issueis whether not fulfilling the commitment by corporates is a problem of liquidity and cash flow or is it the much deeper issue of viability.

Ideally CDR mechanism should be resorted to where the stress in the asset is due to reasons beyond the control of the borrowing corporate. Current guidelines do not specify the circumstances viz. a general downturn in the economy or in any particular sector or any other reasons under which CDR must be resorted to. This raises the possibility of undeserving cases being referred to CDR forum.

There is need to define the circumstances under which CDR will not be allowed viz. diversion of funds, expansion without permission of lenders etc. This will go a long way in imposing the financial discipline.

CDR Mechanism in India:

The Corporate Debt Restructuring (CDR) Mechanism in India is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). It is based on the principle of approval by super-majority of 75% creditors (by value) making it binding on the remaining 25% to fall in line with the majority decision. The CDR Mechanism covers only multiple banking accounts, syndication/consortium accounts, where all banks and institutions together have an outstanding aggregate exposure of Rs.100 million or above. It covers all categories of assets in the books of member-creditors classified in terms of RBI's prudential asset classification norms. Even cases filed in Debt Recovery Tribunals/Bureau of Industrial and Financial Reconstruction/and othersuit-filed cases are eligible for restructuring under CDR. The cases of restructuring of standard and sub-standard class of assets are covered in Category-I, while cases of doubtful assets are covered under Category-II.

III. <u>Research Design, Methodology &Data Collection</u>

a. Research Design

The study is descriptive where the observations are based on a sample size of seventy three CDR cases. Description is fundamental to our work since description based on various parameters leads to causal explanation of a particular situation. As per initial proposal submitted by us, it was briefed that around fifty to hundred cases will be studied in detail. In this process we have studied 73 restructured cases under CDR mechanism that were approved by banks in India over last 10 years. This is a good sample size given the time allotted for the work.

Our study is based on qualitative research method since surveys and experiments (quantitative research method) are not really relevant in the instant case. Our findings are based on case studies that adopt an interpretive approach to the available cases.

b. Data Collection and Tools

Data has been collected from following secondary sources.

- Analysing few CDR proposals.
- Interaction with Lead bank and borrower to analyse the case.
- Published documents, periodicals, journals all over the world, newspapers, website of individual banks, Indian Banks Association (IBA), RBI website and personal contacts.
- Annual published accounts of 73 companies

Data for the study has been collected from multiple sources. It has been ensured that all types of CDR cases are covered by the study. These include:

- Seventy three casessubmitted to the CDR cell
- Four rejected cases
- Forty one cases where restructuring failed

- Two cases where restructuring was successful resulting into exit from the CDR and where recompense amount has been paid partly / fully.

IV. <u>Observations and Conclusions</u>

On the basis of detailed study of 73 cases and our interaction with various promoters, bankers and officials of CDR cell, we have drawn the following inferences and conclusions:

A. Slowdown in Economy

A common reason for reference to CDR mentioned by all the borrowers is global as well as Indian slowdown.Slowdown in the economy certainly affects the capacity of the borrowers to repay as it generally slows down the cash flows and adversely affects profitability, leverage and interest coverage ratio. This phenomenon has been observed in the Indian context also.

B. Adverse Business Environment

Apart from slowdown in the economy adverse business environment has also led many companies to CDR. There has been an inordinate delay in execution of Contracts beyond the control of the Companies due to delays by Government in land acquisition / billing acceptance, non-fulfilment of terms by JV partners etc.

However, economic down turn and adverse business environment are not the only issues when it comes to CDR. Evidence suggests a number of adverse features on the part of corporates also that have taken them to such situation. Adverse economic conditions have only added fuel to the fire and brought to surface what was inevitable. We explain some of the critical issues in the report.

C. Related Party Issues

It has been observed that borrowers have created a chain of associate and subsidiaries. The situation has reached alarming levels. It has also been observed that in many cases adjusted net worth has turned negative implying that the investments in associates and subsidiaries are much higher than the net worth. This also implies that entire money belonging to the shareholders has been taken out and converted to investments. The main business of the company is being run without any stake of the shareholders.

It is observed in almost all the cases that the return on the investment made in associates and subsidiaries is nil or too meagre vis a vis the investments. It is obvious that the company will incur huge loss under such situation while the interest on account of borrowings is booked in the books of the parent; no income is received on account of the investments. This leads the company to CDR system.

D. Imprudent Accounting & Ethics of Professionals

Companies are resorting to imprudent accounting to delay the declaration of loss.The tricks played by companies include advancing the revenue or postponing the expanses. First year the expanses will be postponed to continue a good relationship with lenders and other stakeholders and next year the previous year as well as current year expenses are booked and suddenly the company faces huge loss putting the bankers under pressure to restructure.

E. Financial Mismanagement

One of the most visible reasons that have led corporates to CDR is poor planning. This is reflected through various routes viz. mid-stream change in business strategy / Over Ambition / Lack of critical tie ups / Changes in the original project etc.

F. Inability of the Promoters to Bring in Their Contribution / To Monetize Assets

Such inability is commonly observed and is also a major reason for eventual failure of the CDR package.

G. Large Pool of Lenders / Lack of Coordination Among the Lenders

It has been observed that there is lack of coordination among the lenders and also lack of due diligence. It is observed that when there is a large pool of lenders (20 to 30 lenders) in Consortium and multiple banking arrangements, it is very challenging for banks to ensure financial discipline by the borrower. Borrower takes the benefit of cut throat competition among the lenders. Thisin turn leads to lack of adequate information / control over cash flows of the borrower.

H. Right of Recompense

CDR is a tool to help the borrowers who are facing distress. In this process banks have to make sacrifice at least in the short run if not in the long run. Right of recompense is a tool available to banks to recover the sacrifice extended when the borrower needed help. However, position on this front is too far from being satisfactory.

V. Suggestions / Recommendations

A. Recompense Amount

CDR or any restructuring is not meant to ensure the long term viability or solvency of a debtor. It is essentially a tool to provide breathing space when a company is in distress for a temporary period. The ‘Right to Recompense’ is the mechanism to ensure this.

B. Sale of Unproductive Assets / Entities

Guiding Principle in restructuring under CDR must be to save productive assets and not the companies or promoters. Unlocking value by sale need not be restricted only to sale of physical assets. It must include sale of associates and subsidiaries particularly when huge funds have been invested in such associates and subsidiaries and the return on such investments is too low vis a vis the funds invested.

C. Appraisal for the Group and The Company

We suggest that in case the investments in associates and subsidiaries are more than 25% of the net worth, while appraising the Term Loan / Working capital requirements of the parent, the detailed analysis of financials of associates and subsidiaries must be undertaken.

Loss Incurred on Account of Writing Off of Investment Need not Necessarily be a Reason for CDR.

D. Imprudent Accounting & Ethics of Professionals

Imprudent accounting leaves a question mark on the working of accounting professionals. Banks may circulate a list of such companies among themselves indicating the professionals involved, so that the other work done by these professionals is used with appropriate caution.

E. Management Change

Change of management where ever possible must be explored. It is extremely difficult today to implement management change; however, unless we start thinking in that direction we cannot proceed. It is time for banks to think of using specialised management agencies that can take over the companies that have productive assets and keep the assets in running condition. Takeover of SATYAM management by Mahindra is a good example of preserving the productive assets of the society. If we can develop a few management agencies we will be able to ensure that the productive assets remain in safe hands. Such 'Managing Agency System' was prevalent in British India.

F. Promoters' Contribution & Monetization of Assets

We also suggest that once the debtors agree to sale of assets, those assets must be handed over to the creditors for sale. This will function as a deterrent to the non-serious debtors who commit to sale assets to get the package approved however, never get around to actively selling the asset. Else restructuring must be implemented only after Promoters' contribution comes as cash.

G. Policy Changes at Government Level

Government intervention is certainly required in the form of enabling legislation. It is observed that there is no separate law for CDR. We may take a cue from Spain. The new regulation introduced by Spanish Government basically includes legal reforms in the Insolvency Act. Following these legislative amendments Metrovacesa, Spain's largest real estate company was forced to hand over control to its creditor banks following a Euro 738 million loss in 2008. The company was forced to swap 55% its stake for a loan of Euro 2.1 billion.

H. Closure of All Accounts Outside Consortium / MBA

Closure of all accounts outside consortium / MBA banks must be the pre-condition for implementing the CDR. No concession / additional facilities should be extended unless all accounts outside consortium / MBA banks have been closed.

I. Declare the Name of Bankers in Annual Accounts

It should be made mandatory (under Companies Act 2013) to mention the name of all bankers of a company in its annual accounts.

J. Change in the Format of TEV Study

It has been observed that TEV is not very meaningful.Besides other information, it shouldpositively cover the following aspects:

(i) What are the efficiency parameters of similar units in the similar area with the similar size? What are strengths of other unit that they are surviving and unit under CDR is facing problem? Report must specifically comment on the factors that account for this difference.

(ii) What are the steps that are required to address these factors? The CDR package must specifically address these issues.

K. **Criteria for Identification**

It is necessary that an effort be made to lay down broad guidelines for reference to CDR based on stress. Few indicators of stress are:

- Consistent decline in the overall GDP for four consecutive quarters leading to consistent decline in the overall sales / profitability of a particular industry for 2 to 3 consecutive quarters
- Sudden developments in the macro economic conditions that affects one particular industry and decline in the overall sales / profitability of a particular industry is observed for 2 to 3 consecutive quarters
- Other sudden developments that result in decline in the overall sales / profitability of a particular industry for 2 to 3 consecutive quarters

VI. Issues in Provisioning& Recommendations:

We feel there are three issues in CDR provisioning:

- Asset Classification on Restructuring,
- Restoration of Assets Classification of Restructured Account,
- Provisioning on Restructuring

A. Assets Classification on Restructuring

We suggest that restructuring should be categorized under three categories as under:

Category- I	Restructuringon account of the weakness of financial health of the company and factors controllable/ manageable by promoters/ management of the company.
Category-II	Restructuring on account of delay in obtaining regulatory clearance for which promoters/ management of the company is not responsible
Category-III	Restructuring on account of stress in the macro economic conditions that affect a particular industry or economy as a whole

In case of category-I CDR, account should be downgraded on restructuring, however, in case of category II& III, regulatory forbearance of maintaining assets under standard assets should continue.

However, to address the genuine concerns of RBI on ever greening, we suggest that provision in a restructured account (Category II& III cases) must be linked to the variation between the financial projections accepted for CDR and the financials achieved.

B. Restoration of Assets Classification of Restructured Accounts

Restoration to Standard category may be linked with period of restructuring and bank's sacrifices. Regular repayment of interest/ instalmentsup to one year or full payment of bank sacrifices whichever is later should be minimum criteria for up gradation of asset to standard category. This will deter lenders from fixing lower instalment in the initial years.

C. Provisioning on Restructuring

In case of restructuring of Standard Accounts, 100% provision for the difference between the bank’s sacrifice and additional collateral brought by the promoters should be made.

In case of NPA accounts, provision as per IRAC norms and additional provision as calculated above should be made.

MAIN REPORT

I. *INTRODUCTION*

Corporate Debt Restructuring (CDR) is an effective financial tool for minimizing the adverse effects of default on the borrowers as well as lenders. This is especially important, as the credit portfolio of banks and financial institutions are created mainly out of the resources raised from the general public. The Board for Industrial and Financial Reconstruction (BIFR), an agency of the Government of India was set up in the year 1987, to tackle the problem of industrial sickness;however, the initiative has failed for a variety of reasons. A need was therefore felt to have a mechanism under which lenders and borrowers would meet to agree on a way of recasting stressed debt, even before their becoming a non-performing asset, although non-performing assets can also be the subject of CDR. On the whole CDR mechanism has proved more successful than BIFR to tackle stressed assets of banks and financial institutions.

CDR in India was designed based on cross country experience. Similar experiments have been successful in countries like United Kingdom, Thailand, Korea, Malaysia etc. Dasri (2004) in occasional Paper 39 of the South East Asian Central Banks Research and Training Centre, Kuala Lumpur, has mentioned ‘The concerted efforts of debt restructuring made by means of the court process and the market oriented out-of-court approaches supported by various schemes are key factors contributing to the progress in NPL (Non-Performing Loans) resolution in Thailand’. The mechanism evolved in these countries has banked upon the “Statement of Principles for a global Approach to Multi – creditor workout” given by the

‘International Federation of Insolvency Practitioners’ (INSOL International). World Bank has also favoured development of a code of conduct or an informal out of court process for dealing with cases of corporate financial difficulty in which banks and other financial institutions have a significant exposure, especially in markets where enterprise insolvency has reached systemic levels.

Dasri(2004)in occasional Paper 39 hasalso mentioned that most of the successful cases of CDR are in commerce sector followed by personal consumption and the industrial sector. On the contrary it is mentioned by Dr. Chakrabarty (2013) that in India there is a bias in favour of industry particularly medium and large industries. He has stated that banks have negative bias when it comes to restructuring the debt of micro and small services and agriculture.

II. STATEMENT OF THE PROBLEM (ISSUES AND HYPOTHESIS)

Indian Banking is passing through a very rough phase, as Gross NPAs of banks have surpassed 3.85 % of the gross advances as on 31st March 2014 (up from 3.26% as on 31st March 2013). This is impacting profitability of the banks adversely. A section of the stake holders see CDR as a solution for impaired assets, although contrarians feel that it is nothing but throwing good money after bad money. Part of the problem of NPAs is attributed to the current state of the Indian economy that is passing through rough phase with inflation and recession both hampering the growth of the economy. India's manufacturing sector has been impacted adversely. The companies are finding it difficult to honour their obligations towards banks& financial institutions and are requesting for restructuring or rescheduling their loans. Number of total references received by CDR cell went up from 225 to 622 between March 2009 to March'2014. Aggregate debt involved in these referenceswent up from Rs 95815cr. to Rs 429989 cr.

The issueis whether not fulfilling the commitment by corporates is a problem of liquidity and cash flow or is it the much deeper issue of viability. A temporary phase that is likely to be over soon or is it going to stay for a long time? CDR has been projected as a panacea for cases which are inherently viable but facing temporary problems. Similar observations have been made by scholars across the world. Chellappah (2001, Malaysia) has reported that "In the course of restructuring, we have found that most companies were viable businesseswith a liquidity problem. A recent World Banksponsored study confirmed that 41 per cent of sample of Malaysian companies were found to have encountered illiquidity problems and only 1.5 per cent were insolvent. By contrast, over 60 per cent were illiquid and 53per centinsolvent in Indonesia, 42 per cent and 8 per cent in Thailand and 28 per cent and 14 per cent in Korea respectively”

Delay in obtaining regulatory clearances is considered as one of the major factors behind loans to infrastructureturning non – performing. With the recent initiative for faster as well as online clearances, it is expected that the cases of CDR will come down. However, the impact will be visible after some time only.

However, everything is not fine on the part of corporates. There are a number of factors that need to be studied and deliberated in detail. Information asymmetry has emerged as a big issue, putting bankers in a disadvantageous situation. It is logical that in times of distress this asymmetry is likely to go up, leading ultimately to loans turning irrecoverable.

Another associated problem is lack of good corporate governance among the companies. There is not enough transparency in the decision making by companies.

Often companies fear losing ownership of business especially in cases where there is a need to sell non-core parts of their businesses or find strategic partners. The issue is especially significant in the case of family run businesses which are common in India.

Highly leveraged capital structure of the companies lowers involvement of their promoters in the projects and this ultimately leads to request to lenders for restructuring. At this stage, institutions demand equity infusion by promoters and the promoters cite lack of funds as a reason for not being able to infuse the necessary contribution. This becomes a chicken and egg story.

Ideally CDR mechanism should be resorted to where the stress in the asset is due to reasons beyond the control of the borrowing corporate. Current guidelines do not specify the circumstances viz. a general downturn in the economy or in any particular sector or any other reasons under which CDR must be resorted to. This raises the possibility of undeserving cases being referred to CDR forum. A lower inflow of non-performing assets to the forum supports this view. This view is further supported by the fact that there has been an extraordinary surge in the number of cases referred to and restructured under CDR mechanism during the lastfew years. This raises the questions as to whether this indicates a general downturn or gross misuse of the CDR Mechanism by banks and corporate borrowers (Dr. Chakrabarty). This is further borne out by the rise in the amount of restructured standard advances during financial year 2009-10 and 2011-12.

There is need to define the circumstances under which CDR will not be allowed viz. diversion of funds, expansion without permission of lenders etc. This will go a long way in imposing the financial discipline.

It has also been observed that public sector banks share a disproportionate burden of restructured accounts. The reason for this is attributed to public sector banks being less judicious in the use of restructuring as a credit management tool than the private sector and foreign banks. It is argued that if the reason for the increase in restructured accounts is indeed the economic downturn, then it should have been reflected across all bank groups and not just public sector banks (Dr. Chakrabarty 2012). We tend to disagree with this view as it needs further analysis of the share of industrial loans vis-a-vis the total loans of private and foreign banks as also their policy of restructuring and write offs.

It is also alleged that while the debtors and creditors involved in CDR avail the benefits of asset classification they have tried to avoid the sacrifices in terms of provisioning. This issue has been addressed by RBI via recent guidelines tightening the provisioning norms. The issue however needs further deliberations.

Right of recompense is mandatory. The CDR guidelines state that, for conversion of debt into equity/convertible debt instruments, in case part of principal or interest dues are converted into equity/instruments convertible into equity at a future date, the same will not be reckoned for computation of recompense. However, if there is no upside i.e. increases in market value of shares vis-à-vis the conversion price at which the debt was converted into equity, the promoter should undertake to buy-back the shares so allotted at the conversion price or reimburse/recompense for the loss incurred on conversion into equity. However, it has hardly been experienced in any case. This is a grey area since time lines are crucial. Buy back after one year and five years makes huge difference to the lenders.

It is also stipulated that if the borrower declares dividend in any financial year in excess of ten percent on annualized basis, recompense will be triggered. We feel any dividend must trigger recompense.

Dr. Chakrabarty has also raised concerns in the context of initial pricing of loans for infrastructure projects. Very often, it is observed that the banks are willing to significantly pare down the interest rate charged on the loan post restructuring. Basic economic logic suggests that the pricing should mirror the risk in the loan. Therefore if a project was initially funded by a bank at 16 per cent, what makes a bank willing to restructure the loan and agree for a much lower interest rate when the very fact of restructuring indicates greater credit risk in the account? This reflects that if the bank considers the project viable even at a reduced rate of interest, the initial pricing of loan was arbitrary and not risk-based. We argue that the basic assumption behind any restructuring is that the borrower is facing temporary problems and needs to be helped by way of sacrifice by lenders. The restructuring is needed only when a borrower is in distress. Although distress means risk has gone up this phase is temporary and hence pricing need not follow the traditional logic in the restructuring period.

III. SURVEY OF LITERATURE

CDR framework aims at preserving viable business entities affected by certain internal and external factors, thereby minimizing the losses to the creditors and other stakeholders through an orderly and coordinated restructuring programme. Viability of the account was an important condition for restructuring with malfeasance/fraud and cases of wilful default being barred from the CDR mechanism. Such experiments have been undertaken worldwide.

To appreciate the CDR as concept and its functioning, we have to understand the evolution of industrial environment/development of the country, evolution of legal framework related to restructuring with reference to best international practice and then move on to current trends and issues in CDR. The best practices which are being followed in other part of the world, particularly in USA and England and their approach on CDR also needs to be understood.

A. Evolution of Industrial Policies in India:

Independent India opted for five year planning model of development. In keeping with the ideology of the leadership, the Indian five-year Plans were designed to bring about economic and social development within a 'socialist' framework. The plans pursued multiple objectives of industrialization, raising per capita incomes and achieving equity in the distribution of gains from economic progress. They also sought to reduce the existing concentration of economic power and to achieve a better regional distribution of industrial development. As far as economic strategy is concerned, the following trends were observed during the 1950s, 1960s, and most of the 1970s:

- The Indian planners emphasized the role of heavy industries in economic development and sought to build up the capital goods sector as rapidly as possible.
- The plans envisaged a leading role for the public sector in the structural transformation of the economy.
- Major investments in the private sector were to be carried out, not by the test of private profitability, but according to the requirements of the overall national plan.
- The plans emphasized technological self-reliance, and for much of the period, an extreme inward orientation in the sense that if anything could be produced in the country, regardless of the cost, it should not be imported.

In implementing the above industrial strategy, and particularly in making the private sector conform to the requirements of the plans, the government used a wide variety of measures. The most important of these were:

- Industrial licensing: For much of the period, this entailed that any enterprise which wished to manufacture a new article or sought a substantial expansion of its existing capacity had to obtain a license from the relevant government authority.
- Strict regime of import controls
- Subsidization of exports through special measures
- Administered prices
- Investments by multinationals were generally subject to strict controls.

The above strategy of restriction and protection to Indian industries worked till late 1980s. This was known as license / quota / permit Raj. Because of such environment, industries in India could not become competitive and efficiency of the Indian industries was not comparable even with developing countries. During this period closing a factory was a tedious process even if industry faced serious problem. Restructuring of loans was not a normal phenomenon in banking. Banking was also highly regulated and most of the credit decisions and policies were tightly regulated under RBI credit controls.

B. <u>Industrial Policy Reforms and Major Initiatives</u>

Although liberalization started in 1991, the Seventh Plan witnessed the commencement of liberalization of policy measures in 1985 itself. The major steps initiated were: licensing was no more required for non-MRTP, non-FERA companies for 31 industry groups and MRTP/FERA companies in backward areas for 72 industry groups; raising the assets limit for exemption of companies from the purview of MRTP Act; exempting 73 industries under the MRTP Act for entry of dominant industries, etc.

Some other changes were also made in the areas of licensing and procedures, import of technology, import of capital goods, allowing broad banding of products in a number of industries, etc.

New Industrial Policy 1991:

With the announcement of a new industrial policy in July 1991, a more comprehensive phase of policy reforms was ushered in with a view to consolidating the gains already achieved in the Seventh Plan and providing greater competitive stimulus to the domestic industry.

A number of policy initiatives were undertaken during the Eighth Plan. The thrust of the new industrial policy was on substantial reduction in the scope of industrial licensing, simplification of procedures, rules and regulations, reforms in the Monopolies and Restrictive Trade Practices (MRTP) Act, reduction of areas reserved exclusively for the public sector, disinvestment of equity of selected public sector enterprises (PSEs), enhancing limits of foreign equity participation in domestic industrial undertakings, liberalization of trade and exchange rate policies, rationalization and reduction of customs and excise duties and personal and corporate income taxes, extension of the scope of MODVAT etc. The basic objectives were to promote growth, increase efficiency and international competitiveness.

Deregulation and liberalization resulted in new industries being set up and there was no restriction on production capacity, import of technology and other input. However, simultaneously the problem of failure of new projects in industrial segments also increased. To address these issues there was a need to formulate new laws related to industrial sickness and rehabilitation.

C. <u>Sick Industrial Companies (Special Provision) Act:</u>

The Government of India enacted a special legislation namely, the Sick Industrial Companies (Special Provisions) Act in 1985, commonly known as the SICA.

The main objective of SICA was to determine sickness and expedite the revival of potentially viable companies and closure of unviable companies. It was expected that by revival, idle investments in sick units will become productive and by closure, the locked up investments in unviable units would get released for productive use elsewhere.

D. **BIFR and its functioning:**

The Board for Industrial and Financial Reconstruction (BIFR) was set up in January, 1987. The Appellate Authority for Industrial and Financial Reconstruction (AAIFR) was constituted in April 1987. Government companies were brought under the purview of SICA in 1991

The criteria to determine sickness in an industrial company are

(i) The company should have been incorporated under the Companies Act, 1956 and completed 5 years and having factory license.

(ii) the accumulated losses of the company to be equal to or more than its net worth i.e. its paid up capital plus its free reserves,

(iii) it should have 50 or more workers on any day in the 12 months preceding the end of the financial year with reference to which sickness is claimed,

BIFR was a court administered mechanism as against CDR which is an arrangement among lenders and borrowers without court intervention.

E. **Corporate Debt Restructuring:**

Under adverse economic conditions, borrowers of all types experience decline in income and cash flow. As a result, many borrowers seek to reduce contractual cash outlays, the most prominent being debt payments. Moreover, in an effort to preserve net interest margins and earning assets, institutions are also open to working with existing customers in order to maintain relationships.

Both of these matters lead to the question: Is a debt restructuring a simple refinancing or a "troubled" debt restructuring (TDR)?

To answer this question, we need to know the three factors that must always be present in a troubled debt restructuring.

First, an existing credit agreement must be formally renewed, extended and/or modified. Informal agreements do not constitute a restructuring because the terms of a note have not contractually changed.

Second, the borrower must be experiencing financial difficulty. Determining this factor requires a significant amount of professional judgment. However, accounting literature does provide some indicators on financial difficulties, including:

- The borrower has defaulted on debt obligations.
- The borrower has declared or is in the process of declaring bankruptcy. In the Absence of the restructuring, the borrower cannot obtain funds from another source at market rates available to non-troubled debtors.
- The borrower's cash flow is insufficient to service existing debt based upon actual or projected performance.

Third, the lender grants a concession that it would not otherwise consider. Concessions can take many forms, including the lowering of the effective interest rate, interest and/or principal forgiveness, modification or extension of repayment requirements, and waiving financial covenants to enhance cash flow.

If all three factors are present, a troubled debt restructuring has occurred, and various issues must be considered and appropriately responded.

i. CDR Mechanism in India

Based on the experience in countries like the UK, Thailand, Korea, Malaysia, etc. of putting in place an institutional mechanism for restructuring of corporate debt and need for a similar mechanism in India, a Corporate Debt Restructuring System was evolved and detailed guidelines were issued by Reserve Bank of India on August 23, 2001 for implementation by financial institutions and banks.

The Corporate Debt Restructuring (CDR) Mechanism in India is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA). It is based on the principle of approval by super-majority of 75% creditors (by value) making it binding on the remaining 25% to fall in line with the majority decision. The CDR Mechanism covers only multiple banking accounts, syndication/consortium accounts, where all banks and institutions together have an outstanding aggregate exposure of Rs.100 million or above. It covers all categories of assets in the books of member-creditors classified in terms of RBI's prudential asset classification norms. Even cases filed in Debt Recovery Tribunals/Bureau of Industrial and Financial Reconstruction/and othersuit-filed cases are eligible for restructuring under CDR. The cases of restructuring of standard and sub-standard class of assets are covered in Category-I, while cases of doubtful assets are covered under Category-II.

Reference to CDR Mechanism may be triggered by:

- Any one or more of the creditors having minimum 20% share in either working capital or term finance, or

- By the corporate concerned, if supported by a bank/FI having minimum 20% share as above.

It may be emphasized here that, in no case, the request of any corporate indulging in fraud or misfeasance, even in a single bank, can be considered for restructuring under CDR System. However, the CDR Core Group, after reviewing the reasons for classification of a borrower as wilful defaulter, may consider admission of exceptional cases for restructuring after satisfying itself that the borrower would be in a position to rectify the wilful default provided he is granted an opportunity under CDR mechanism.

ii. **Structure of CDR System**

The edifice of the CDR Mechanism in India stands on the strength of a three-tier structure:

- CDR Standing Forum
- CDR Empowered Group
- CDR Cell

iii. Legal aspects of CDR Package

The legal basis to the CDR System is provided by the Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA). All banks /financial institutions in the CDR System are required to enter into a legally binding ICA with necessary enforcement and penal provisions. The most important part of the CDR Mechanism, which is the critical element of ICA, is the provision that if 75% of creditors (by value) agree to a debt restructuring package, the same would be binding on the remaining creditors.

Similarly, debtors are required to execute the DCA. The DCA has a legally binding ‘stand still’ agreement binding for 90/180 days whereby both the debtor and creditor(s) agree to ‘stand still’ and commit themselves not to take recourse to any legal action during the period. ‘Stand Still’ is necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the ‘stand still’ is applicable only to any civil action, either by the borrower or any lender against the other party, and does not cover any criminal action.

Besides, the borrower needs to undertake that during the ‘stand still’ period

a. The documents will stand extended for the purpose of limitation,
b. He would not approach any other authority for any relief and,
c. Thedirectors of the company will not resign from the Board of Directors.

These guidelines also adopted the existing asset classification benefit available to fully secured standard accounts, on restructuring, which was previously permitted vide a March 2001 circular of RBI. These guidelines on CDR were subsequently reviewed and revised on the basis of recommendations of a High Level Group under the Chairmanship of Shri Vepa Kamesam, in February 2003 and a Special Group under the Chairmanship of Smt. S. Gopinath, in November 2005. Subsequent to these reviews, guidelines on CDR mechanism allowed restructuring of exposures of Rs.10 cr. and above and restructuring even of accounts classified as Doubtful, subject to their viability. Through these guidelines, RBI also delegated the authority to approve the corporate debt restructuring packages to CDR Standing Forum and CDR Empowered Group and retained with itself only the authority to issue broad guidelines(Source: CDR Cell website).

The current comprehensive guidelines on CDR as well as non-CDR restructuring were issued in August 2008 and last updated in December 2012.

F. <u>RBI's Recent Guidelines on Early Recognition of Financial Distress:</u>

To incentivize early identification of problem accounts and taking prompt corrective action for resolution by banks, RBI has issued on 26/02/2014, guidelines on Framework for Revitalising Distress Assets in the Economy – Guidelines on "Joint Lenders' Forum (JLF) and Corrective Action Plan (CAP)". Highlights of the guidelines are as under:

The JLF and CAP will be applicable for lending under Consortium and Multiple Banking Arrangements (MBA) only for aggregate exposure of Rs. 100 cr. and above.

Before a loan account turns into NPA, banks are required to identify incipient stress in the account by creating three sub-categories under the Special Mention Account category as given in the table below:

SMA Sub-categories	Basis for classification
SMA-0	Principal or interest payment not overdue for more than 30 days
SMA-1	Principal or interest payment overdue between 31-60 days
SMA-2	Principal or interest payment overdue between 61-90 days

RBI has set up a Central Repository of Information on Large Credits (CRILC) to collect, store, and disseminate credit data to lenders on all borrowers having aggregate exposure of Rs 5 cr. and above.

Formation of Joint Lenders' Forum (JLF) for Loans under Consortium and Multiple Banking Arrangement:

If credit facilities are granted under consortium or multiple banking arrangement and an account is reported by any of the lenders to RBI- CRILC as SMA-2, bank along with other lending banks have to mandatorily form a committee to be called as Joint Lenders' Forum (JLF) if exposure of all lenders is Rs 100 cr. and above.

Corrective Action Plan (CAP) by JLF: In order to resolve the stress in the account, the following **three options** for CAP will be available to JLF:

(i) **Rectification:** Operating Units should obtain a specific commitment from the borrower to regularise the account. JLF may consider need based additional finance, if the proposal is found viable.

(ii) **Restructuring:**consider the possibility of restructuring if the account is prima facie viable and the borrower is not a wilful defaulter.

JLF has to decide on the course of action within 30 days from the date, an account is reported as SMA-2 or on receipt of request from the borrower for formation of JLF.

JLF has the option to refer the account to CDR Cell or restructure the same independent of the CDR mechanism.

Asset classification of the account as on the date of formation of JLF will be taken into account.

(iii) Recovery: If the first two options cited above are considered as not feasible, due recovery process may be resorted to. The JLF may decide the best recovery process to be followed, among the various legal and other recovery options available, with a view to optimize the efforts and results.

- **Wilful Defaulters and Non-Cooperative Borrowers:** RBI has introduced stepped up provision. No additional facilities should be granted by bank to the entities listed as wilful defaulters

In case of non-cooperation, due notice (30days) be given by bank and if satisfactory clarifications are not furnished, name of such borrowers have to be reported to CRILC. Provisioning at 5% in Standard Account and accelerated provisioning in NPA account have to be made.

- **Dissemination of Information:** In case any falsification of accounts is found due to negligent or deficient conduct of audit by the auditors, banks should lodge a formal complaint against the auditors of the borrowers with the Institute of Chartered Accountants of India (ICAI) to enable the ICAI to examine and fix accountability.

- **<u>Conclusion:</u>**

These RBI guidelines will facilitate better coordination among the banks and proper sharing of information among the banks. A new concept of non-cooperative borrower has been introduced. This will force the borrower to provide the information to lenders in time and also improve financial discipline.

Let us now have a view of restructuring systems prevailing in UK & USA. A brief discussion on the practices in different parts of the world is also given under section IV.

G. <u>The London Approach</u>

The London Approach provides general guidance to banks and other creditors on how to react to a company that faces serious financial difficulties. This guidance, however, is not statutory, and Banks do not have enforcement powers. The London Approach recognizes that banks and other parties act in their own self-interest. However, by encouraging the parties to observe certain rules for restructuring, it seeks to avoid unnecessary damage and to foster solutions that benefit all parties involved. The key features of the London Approach are as follows: we quote from Meyerman:

- Principal creditors must be willing at the outset to consider a non-judicial resolution to a company's financial difficulties rather than resorting to formal insolvency procedures such as liquidation, administration, or a company voluntary agreement, and without recourse to other enforcement procedures such as receivership or administrative receivership.

- As part of this consideration, creditors must commission an independent review of the company's long-term viability, drawing on information made available by, and shared between, all the likely parties to any workout.
- During the period of the review, the company's bankers holding debt should agree to maintain the company's facilities in place, effectively an informal standstill sufficient to preserve the confidence of suppliers and customers by allowing the company to continue to trade normally.
- Drawing on the independent review, the company's main creditors should work together to reach a joint view on whether, and on what terms, a company is worth supporting in the longer term.
- To facilitate these discussions, a coordinating or lead bank may be designated, and a steering committee of creditors formed.
- In addition to maintaining existing credit facilities, it may be necessary to allow the company to supplement its existing borrowing with new money in the event of an immediate liquidity shortfall. New money may be provided on a pro rata basis by all existing lenders, by specific lenders with priority arrangements, or by releasing the proceeds of asset disposal subject to priority considerations. Other principles during this critical period of financial support include the recognition of existing seniority of claims and the sharing of losses on an equal basis between creditors in a single category.
- If creditors agree that the company is viable, the creditors should move on to consider longer-term financial support, including an interest holiday, extension of loan maturities,

further lending for working capital, and conversion of debt into equity.

- Changes in the company's longer-term financing need to be conditioned on the implementation of an agreed business plan, which may well involve management changes, sales of assets or divisions, or even the takeover of the company.

The London Approach does not guarantee the survival of a company in difficulty. Regulatory authorities do not intervene and, because of its voluntary nature, the London Approach can only be effective as long as it is supported within the banking community. This non-statutory feature of London Approach has been adopted by RBI inthe CDR framework. The London Approach was instrumental during the recession of the early 1990s. Many companies survived only because their banks, bondholders, and other creditors sought and achieved a collective solution for the financial restructuring of viable businesses. The banks have been actively involved in more than 160 restructurings since 1989. However (and more important), many more workouts have been effected by using the principles of the London Approach without the Bank's direct intervention. When successfully applied, the London Approach preserves value for creditors and shareholders, saves jobs, and safeguards productive capacity (Meyerman).

H. <u>Bankruptcy Reorganization in US under Chapter 11</u>

Chapter 11 bankruptcy is a form of bankruptcy reorganization available to individuals, corporations and partnerships. It has no limit of amount of debt. It is the usual choice for large businesses seeking to restructure their debt.A case filed under chapter 11 of the United

States Bankruptcy Code is frequently referred to as a "reorganization" bankruptcy.

<u>How Chapter 11 works</u>

The debtor in Chapter 11 usually remains in possession of its assets, and operates the business under the supervision of the court and for the benefit of creditors. The debtor in possession is a fiduciary for the creditors. If the debtor’s management is ineffective or less than honest, a trustee may be appointed.

A creditors committee is usually appointed by the U.S. Trustee from among the 20 largest, unsecured creditors who are not insiders. The committee represents all of the creditors in providing oversight for the debtor’s operations and a body with whom the debtor can negotiate an acceptable plan of reorganization.

A Chapter 11 plan is confirmed only upon the affirmative votes of the creditors, who are divided by the plan into classes based on the characteristics of their claims, and whose votes are a function of the amount of their claim against the debtor.

If the debtor can’t get the votes to confirm a plan, the debtor can attempt to “cram down” a plan on creditors and get the plan confirmed despite creditor opposition, by meeting certain statutory tests.

The rate of successful Chapter 11 reorganizations is depressingly low, sometimes estimated at 10% or less. The complex rules and requirements in Chapter 11 increases the cost to file the case and prosecute a plan to confirmation far beyond than other forms of bankruptcy.

I. Statement of Principles for a Global Approach to Multi-Creditor Workouts: APrescription by INSOL

INSOL an International Federation of Insolvency Professionals have devised the eight principles (the "Principles") which should be regarded as statements of best practice for all multi-creditor workouts. These principles are applicable in all jurisdictions. These eight principles (described in October 2000 document) are as under:

i. Where a debtor is found to be in financial difficulties, all relevant creditors should be prepared to co-operate with each other to give sufficient (though limited) time (a "Standstill Period") to the debtor for information about the debtor to be obtained and evaluated and for proposals for resolving the debtor's financial difficulties to be formulated and assessed, unless such a course is inappropriate in a particular case.

ii. During the Standstill Period, all relevant creditors should agree to refrain from taking any steps to enforce their claims against or (otherwise than by disposal of their debt to a third party) to reduce their exposure to the debtor but are entitled to expect that during the Standstill Period their position relative to other creditors and each other will not be prejudiced.

iii. During the Standstill Period, the debtor should not take any action which might adversely affect the prospective return to relevant creditors (either collectively or individually) as compared with the position at the Standstill Commencement Date.

iv. The interests of relevant creditors are best served by coordinating their response to a debtor in financial difficulty. Such co-ordination will be facilitated by the selection of one or more representative co-ordination committees and by the appointment of professional advisers to advise and assist such committees and, where appropriate, the relevant creditors participating in the process as a whole.

v. During the Standstill Period, the debtor should provide, and allow relevant creditors and/or their professional advisors reasonable and timely access to, all relevant information relating to its assets, liabilities, business and prospects, in order to enable proper evaluation to be made of its financial position and any proposals to be made to relevant creditors.

vi. Proposals for resolving the financial difficulties of the debtor and, so far as practicable, arrangements between relevant creditors relating to any standstill should reflect applicable law and the relative positions of relevant creditors at the Standstill Commencement Date.

vii. Information obtained for the purposes of the process concerning the assets, liabilities and business of the debtor and any proposals for resolving its difficulties should be made available to all relevant creditors and should, unless already publicly available, be treated as confidential.

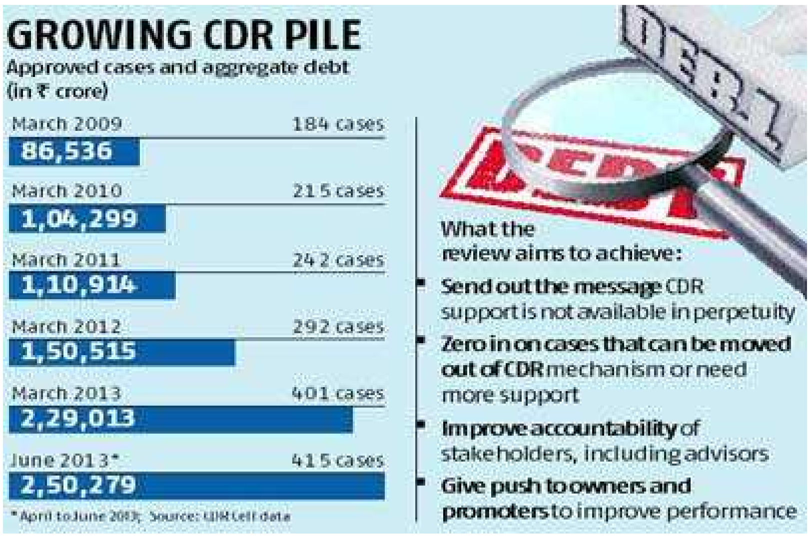
viii. If additional funding is provided during the Standstill Period or under any rescue or restructuring proposals, the repayment of such additional funding should, so far as practicable, be accorded priority status as compared to other indebtedness or claims of relevant creditors.

IV. ***CURRENT STATUS OF CDR IN INDIA***

Details of cases referred to CDR (since inception) as on 30th June, 2014 are as under:

- 624 cases with exposure of Rs 432843 cr. were referred to CDR Cell,
- 486 cases with exposure of Rs 348502 cr. were approved by CDR Cell,
- Only 75 cases (15.43% of approved cases) with exposure of Rs 58205 cr. (16.70% of exposure approved) have been successful.

One year back in June 2013, lenders had approved CDR packages for 415 companies, with aggregate debt of Rs 2,50,279 cr.. The iron and steel sector accounted for the most — Rs 53,543 cr. A year earlier, 309 cases, with aggregate debt of Rs 1,68,472 cr., were on the CDR platform.



There has been concern on the growing number of companies opting for a debt recast. The extraordinary rise in cases referred to and reworked under CDR led to questions whether the trend was due to the general downturn or a gross misuse of the facility by banks and companies.

RaghuramRajan, Governor of RBI also said “promoters do not have a divine right to stay in charge regardless of how badly they mismanage an enterprise, nor do they have the right to use the banking system to recapitalise their failed ventures”.

Source: The Economic Times Dated: 10th September, 2013

V. GOVERNMENT INTERVENTION IN CORPORATE DEBT RESTRUCTURING

Support from government of the country is a must for success of CDR. In many countries the governments have intervened heavily in the CDR process; however, the strategy of each country has been different. We give below the strategies and experience of some of these countries.

The cross country experience shows that "Government intervention had the following forms: 1) direct lending, 2) recapitalisation / equity injection, 3) government guarantee of liabilities, 4) Legal reforms. Direct lending took place in Russia, US & Dubai. Equity injection as well as government guarantee was used in Dubai and Ukraine. Although these measures provided confidence to the markets, stabilised expectations, but may have also created moral hazard. They also came at the cost to the tax payer. These interventions weakened the governments' balance sheets as they accepted assets of questionable financial value" Grigorian&Raei (2013).

Country wise details are given below:

Overview of corporate debt restructuring measures in selected countries				
	Debt restructuring measures	**Government intervention**	**Cost of corporate support**	**Cost of banking sector support**
UAE (Dubai)	Government loans to troubledGREs and conversion of Government claims to equity.Out-of-court restructuring ofbilateral debt through negotiations with banks' creditors	Recapitalization of banks.Introduction of a special solvency regimeforDubai World. Government through Financial Support Fund, provided loansand funds for repayment ofSukuk and forinterest and operational costs. Some	\$10 - \$20 billion. Somein the form of equityincrease and somenew funds. 12 – 24%	1 percent ofUAE's GDP. AED 50 billion (\$13.6billion) deposited in banks,some converted to Tier-I capital.

	committee and with trade creditors. Bonds/Sukuk will be paid in full.	of the funds will be converted to equity. The funds are obtained through government's $20 billion bond program.	ofDubaiGDP.	
Latvia	Developed out-of-court work-out guidelines; developed and implemented an information strategy to raise public awarenessabout new insolvency framework,and provided training to government and private stakeholders about out-of-court restructuring	Recapitalization of domestic banks. No direct financial subsidy to corporate sector.		4 – 8percent of GDP for2008-2011.
Russia	Loans to large and strategically important companies to repay their foreign currency debt. Restructuring of severalpartially state-ownedcorporations.	Recapitalization of banks. Regulatoryforbearance ofNPLs. Initial response was to focus on helping selected large companies via directed loans and subsidies from Central Bank, state banks and the state-owned VEB. Focus later shifted to more comprehensiveapproach of helping strategic companies(largest employers in regions) and sectors via state guarantees, procurement, tax cuts, and bank recapitalisation.	$14.3 billion loans to large companies and $1 billion to SME as of April 2010. 0.1 percent of GDP.	3.1 percent ofGDP includes recapitalizationsand asset swaps/purchases.
Spain	Widespread debt restructurings (Largestdevelopers all restructureddebts) undertaken on case-by-casebasis, all market based *(i.e.,*	Assistance provided to banking sector in line with common framework agreed to by euro-area countries. No direct financial subsidy to corporate sector.		2 percent of GDP include bank recapitalization andasset purchases as ofDecember 2009.

	no government involvement.)			
Ukraine	Plan to develop a government-facilitated voluntary framework for restructuring corporate and household debts. Some progress involuntary, bank-led restructurings of corporates.	Recapitalization of banks. Financial subsidy was provided to state-owned gas company, Naftogaz, restructured debts in September 2009: swapped $500 million unguaranteed debt maturing within a week for fresh sovereign-guaranteed bonds withhigher coupon and five-year maturity;alsonegotiatedwith bilateral creditors to convert loans to the Eurobond.	2.7 percent of GDP. Includes the operational DeficitofNaftogazincluded in budget. (Additional contingentliabilities might arisefrom the $1.6 ofNaftogaz bondsguaranteed by government).	3 percent ofGDP in 2009 2.4 percent ofGDP in 2010.
UnitedStates	Loan and equity investments in GM, Chrysler, and GMAC	Recapitalization of banks. Asset purchase anddebt guarantee schemes for financial sector. Providing loans to GM, Chrysler, and GMAC \ and eventually acquiring stakes in these companies and overseeing the restructuring process.	$81 billion in loans and equity investments as of June 2010.	3.6 percent ofGDP as ofend 2009 includes netcost of recapitalizationschemes as well as assetpurchase and lending by treasury.

Source: GrigorianDavid A, and RaeiFaezeh, 2013

In India, the government has not intervened directly in the CDR process. Entire process has been left to the central bank and commercial banks.

VI. RESEARCH DESIGN, METHODOLOGY & DATA COLLECTION

A. Research Design

The study is descriptive where the observations are based on a sample size of seventy threeCDR cases. Description is fundamental to our work since description based on various parameters leads to causal explanation of a particular situation. As per initial proposal submitted by us, it was briefed that around fifty to hundred cases will be studied in detail. In this process we have studied 73 restructured cases under CDR mechanism that were approved by banks in India over last 10 years. This is a good sample size given the time allotted for the work.

Our study is based on qualitative research method since surveys and experiments (quantitative research method) are not really relevant in the instant case. Our findings are based on case studies that adopt an interpretive approach to the available cases. An oft repeated criticism of the case study approach is that conclusions drawn from a small number of case studies may not be reliable. However, we overcome this shortcoming by having a good sample size of the cases studied. Case study method in the instant case was found most suitable on account of detailed contextual analysis that this method offers. Case studies are retrospective as criteria are already established for selecting cases from historical records for inclusion in the study. Cases selected belong to all categories i.e. successful, unsuccessful and those still under CDR. Study of live cases makes our work an empirical research.

B. **<u>Data Collection and Tools:</u>**

Source of Data:

Data has been collected from following sources.

- Analysing few CDR proposals.
- Interaction with Lead bank and borrower to analyse the case.
- Published documents, periodicals, journals all over the world, newspapers, website of individual banks, Indian Banks Association (IBA), RBI website and personal contacts.
- Annual published accounts of 73 companies

Data for the study has been collected from multiple sources. It has been ensured that all types of CDR cases are covered by the study. These include:

I. Seventy three casessubmitted to the CDR cell

II. Four rejected cases

III. Forty one cases where restructuring failed

IV. Two cases where restructuring was successful resulting into exit from the CDR and where recompense amount has been paid partly / fully.

We have interacted with the promoters/ directors of fivecompanies to assess their point of view in restructuring.

We have also interacted with fewofficials of CDR celland ascertained their views in restructuring.

We held personal discussion with a number of bankers across the industry to know their viewsand ascertain their perspective on the issues in restructuring.

A substantial portion of the exposure of the banks to infrastructure sector has turned non-performing because of delay in obtaining regulatory clearances. Such cases have been studied in detail to find out whether delay in regulatory clearances is real reason for such requests.

Dr. Chakrabarty (2012) has mentioned in one of his speeches that due to the extraordinary rise in the number and volume of advances being restructured under the scheme in recent times, it has come under media scanner, and engaged the attention of the financial market players, the borrowers, the regulators and the policy makers. However, it appears that the provisions of the CDR mechanism have not been used very ethically and judiciously, giving rise to the unprecedented increase in cases under CDR. Ethics of professionals like chartered accountants, company secretaries, surveyors, chartered engineers financial analysts, cost accountants, lawyers has also come under scanner of Dr. Chakrabarty. We havestudied few cases from this angle also. A number of times lack of financial discipline is a reason for mortality. This aspect has been studied in detail esp. in view of need of a mechanism to monitor the cash flows.

VII. OBSERVATIONS AND CONCLUSIONS

On the basis of detailed study of more than 70 cases and our interaction with various promoters, bankers and officials of CDR cell, we have drawn the following inferences and conclusions:

A. Slowdown in Economy

A common reason for reference to CDR mentioned by all the borrowers is global as well as Indian slowdown.Slowdown in the economy certainly affects the capacity of the borrowers to repay as it generally slows down the cash flows and adversely affects profitability, leverage and interest coverage ratio. This phenomenon has been observed in the Indian context also. Financial stability report released by RBI in June 2014 indicates that the 'Leverage of Indian corporates increased across sectors / industries during 2010-11 and 2012-13'. 'The interest coverage ratio which reflects the ability of corporates to service borrowings with the present level of profits fell across sectors'. It is well established fact that when economy is booming NPAs are at lower level. This belief is based on past trend. In 2009 when GDP was 7% Gross NPA was 2.5%. Between 2002 and 2003 the economic growth improved from 3.9 to 8% and Gross Non-Performing Assets of Public Sector Banks which were as high as 11% in 2002 came down to 7.4% (2004) and 3.5% (2006). Hence with the revival of economy the non-performing assets as well as CDR cases will decline sharply. Cross country experience also indicates the same trend. Chellappah, (2001) have advised that Malaysia's distress was probably caused more by the contagion effects of capital flightand deflationary pressures. In many cases, the causes were mainly external in nature. Demand contraction, falling asset prices, high interest rates, credit squeeze and duration mismatch were key causal factors of corporate distress.

The data cited below proves aninverse correlation between GDP growth rate and NPA/ CDR.

(Rs in Cr.)

As on 31st March	ASCB Advancesoutstanding	CDR Outstanding	CDR %	NPA Amount	NPA%	Average inflation during year	Grow Ra (GD
2008-2009	3038254	95815	3.15	68328	2.2	9.1	
2009-2010	3544965	115990	3.27	84698	2.4	12.3	
2010-2011	4012079	138604	3.45	97900	2.4	10.5	
2011-2012	4665544	206493	4.43	137096	2.9	8.4	
2012-2013	5988279	297990	4.98	193194	3.2	10.2	

Sources: RBI, CDR Cell & Planning Commission, GOI

B. <u>Adverse Business Environment</u>

Apart from slowdown in the economy adverse business environment has also led many companies to CDR. There has been an inordinate delay in execution of Contracts beyond the control of the Companies due to delays by Government in land acquisition / billing acceptance, non-fulfilment of terms by JV partners etc.We have come across six cases under this category.

However, economic down turn and adverse business environment are not the only issues when it comes to CDR. It is true that leverage has gone up and interest coverage ratios have gone down, theses adverse movements are not the function of adverse economic conditions only. Evidence suggests a number of adverse features on the part of corporates also that have taken them to such situation. Adverse economic conditions have only added fuel to the fire and brought to surface what was inevitable. We discuss some of these critical issues in the following paragraphs.

C. Investments Made in Associates and Subsidiaries

It has been observed in case of twelve companies studied by us that borrowers have created a chain of associate and subsidiaries. Associates and subsidiaries are floated to undertake a new line of business or acquiring a new business. These may also be floated for the purpose of acquiring new entities. The intention is to take advantage of new business opportunities and simultaneously insulate the company from the risk that the associate or subsidiary carries. Such investments/ acquisitions are many times warranted for the growth and profitability of the company. Hence, acquisitions must be profitable at least in the long run. No company can afford a situation when the investments made in the acquisitions do not earn adequate returns over a period of time. Lack of return on such investments is one of the major reasons for the decline in the profitability of the main company that leads it to seek shelter under CDR.

The situation has reached alarming levels. It has also been observed that in many cases adjusted net worth has turned negative implying that the investments in associates and subsidiaries are much higher than the net worth. This also implies that entire money belonging to the shareholders has been taken out and converted to investments. The main business of the company is being run without any stake of the shareholders.

Data from some of the cases we studied is furnished below:

(Rs. in cr.)

Sr. No	Year	TNW	Investments in Associates & Subsidiaries	Return on Investments (Rs.)
1	2013	10	10	0
2	2012	5856	11171	0
3	2009	60	96	0
4	2010	443	407	0
5	2012	216	11	0
6	2013	7	15	0

It is observed in almost all the cases that the return is nil or too meagre vis a vis the investments. It is obvious that the company will incur huge loss under such situation while the interest on account of borrowings is booked in the books of the parent; no income is received on account of the investments. This warrants that all the associate and subsidiaries should also be brought under CDR umbrella and lenders must explore the possibility of consolidation of all associates and subsidiaries to assess the riskrealistically. Else the CDR must be considered for the group as a whole.

We now discuss key findings from few individual cases. A company made few very prestigious acquisition (in stages from 2007-08 to 2010-11) that made it leading player in the respective field worldwide. However, return on total investment by the company till date remains meagre. This has led the company ultimately to CDR. What is more intriguing is the fact that though many reasons are assigned for the state of affairs, the cost of acquisitions is not mentioned as a major reason for losses being suffered. In this case out of total assets of

20750 cr. about 13350 cr.(65% of the total assets) is loans to and investment in associates and subsidiaries. A snapshot of the balance sheet is given below.

Current Liabilities	7970	CurrentAssets	8110
Non-Current Liabilities	7150	Non-Current Assets	11660
Net Worth	5630	Fixed Assets	980
Total	20750	Total	20750

Non-Current Assets includes 11200 Cr.as investments in and loans to subsidiaries. Current assets also include loans to subsidiaries at 2150 Cr.

Sales are 6870 Cr. interest cost is 784 Cr. interest income is 324 Cr. dividend income is nil, provision on diminution in investments debited to P& L is 350 Cr. and Rs. 500 Cr. has been directly written off from investments. Rs. 930 Cr. is the redemption premium that is directly adjusted to securities premium account.

These aspects must be given due importance in appraisal. It may be noted here that company has high debt servicing burden on domestic balance sheet as all acquisition loans have been availed by the company, whereas the acquired company’s Balance Sheet is virtually debt free. Issue is if the return from such investments is not forthcoming can any amount of restructuring help the company and whether such cases must be allowed restructuring and concessions? It is quite logical that while giving loan to company A (acquirer) the financials and profitability of B (acquired) be appraised in detail. It is also mentioned that the acquiring company cannot utilise the huge cash available with the acquired company due to ring fencing by the acquired company’s bankers. Issue is how long ring fencing will go on and can the company survive without adequate returns form the investments made in associates and subsidiaries. It is also observed that in 2014 losses have mounted too high.

The package under CDR must address the issue of low returns from investments in associates and subsidiaries. Our findings indicate that this issue is not being given the importance it deserves.Our recommendations in this regard are given in the subsequent pages under suggestions.

D. <u>Step Down Subsidiaries</u>

Huge investments in step down subsidiaries is also a major reasons for loss to the company and reference to CDR. It has been observed in two cases that huge investments have been made in step down subsidiaries by a multi-tier structure (up to five or more tiers). The quantum of ultimate investment is not available in the financial statements as the financial statements give details of only the investments in the associates and subsidiaries of the parent. The attached financial statements are also of direct associates and subsidiaries. There is no way to get the information on the ultimate destination of the money that has been invested in the step down associates and subsidiaries

We give details of one of the cases studied. ‘A’ the parent company (debtor) invests about Rs. 350 cr. in its wholly owned subsidiary ‘B’. B invests in its wholly owned subsidiary ‘C’. The amount is not disclosed in the financial statements of A. ‘C’invests in its wholly owned subsidiary ‘D’.The chain is extended further to E & F. F is the ultimate beneficiary. This is evident from the fact that trouble in company F results in company B writing off its investments by about Rs. 300 cr.. The repercussion is felt by the ultimate parent. A also writes offits investments in ‘B’ by the equal amount and declares loss.

A graphical representation of the whole process is given below.

Company A

↓

Company B

↓

Company C

The chain extends till F

It may be noted that in the previous year balance sheet there was no mention of such trouble. The disclosure timings are also important. The parent company A’s Financial results are declared in the month of May. The company F files for bankruptcy in the month of October in the same year. However, there is no mention of any trouble that the international operations are facing in the annual accounts of main company published in the month of May same year. It is difficult to comprehend that the trouble that is going to crystallise into bankruptcy is not known to the parent just five months ahead.

The issue is whether such cases where the company declares loss on account of writing off of the investments be considered under CDR or any other restructuring. Our study conclusively proves such cases need not be taken under CDR or any other restructuring.

Let us discuss why?The balance sheet of the company before and after writing off the investment looks as under:

	Before	**After (Next Year)**		**Before**	**After (Next Year)**
Current Liabilities	2765	3275	Current Assets	2901	3372
Non-Current Liabilities	843	685	Non-Current Assets	1149	775
Net Worth	1557	1171	Fixed Assets	1115	984
Total	5165	5131	Total	5165	5131

The company has shown loss of Rs. 411 cr. out of which Rs. 324 cr. is on account of writing off the investments in step down subsidiary. Loss of such magnitude has dented the net worth of the company by almost 25%. Apparently it appears to be a fit case for restructuring.

However, if the return from such investments was zero since last many years or near zero, this money has already been taken out. It was already as good as dead investment as it was not generating any income since last many years. Hence writing off this amount now is only a book entry. It has in no way affected the operating efficiency of the company or its profit generating capability from core operations. This is also to be examined that to what extent the income generation from this investment was envisaged to pay off the liabilities of the parent or running the operations of the parent. If it was zero and entire liabilities were to be paid from the operations of parent sans return from this investment, the writing off of this investment cannot be the reason for seeking reliefs under CDR.

We strongly suggest that these issues must form critical inputs for the decision making process while deciding about concessions etc. under CDR. Apart from CDRthese issues must also form critical inputs for the decision making process while appraising a regular loan proposal.

E. <u>Related Party Issues, Creation of Complex Structures:</u>

Investments in associates and subsidiaries and acquisitions create complex organizational structures. Although it is management decision to create associates and subsidiaries, many times there is no apparent justification for the same. Further it is almost impossible to trace the funds utilization and transactions among the group companies. There is no certainty that the transactions among the entities within the group are being conducted at an arm's length price. Chances of diversion and siphoning off the money can also not be ruled out.

This situation makes it virtually impossible for banks and Financial Institutions to check on ultimate usage of funds and impose financial discipline. Sheer number of associates and subsidiaries makes it impossible for bankers to have information on the affairs of the company. No reasons are ascertainable for the need of such huge number. One such group that we studied is having turnover of about Rs. 20,000 Cr. The group operates with about 80 subsidiaries. There are a number of transactions with in the group. The CDR has been taken up for the group with about 10% of the subsidiaries. However it is not clear why all other subsidiaries have been left out of the CDR. Further there is no clarity on the likely impact of the left out group companies' on the financials of the company.

F. Unrealistic Projections / Huge Difference between Projection and Actual Results:

The basis of the scheme of revival is techno economic viability. Once techno economic viability is established the quanta of concessions, length of repayment, recompense, additional quantum of loans to be given are determined based on the projections. The critical projections are rightly sales and profit. Out of the 73companies studied it was found that in 42 cases these are not achieved. The difference between actual results and projections varies up to 96%. This tendency is observed across the cross section of the debtors i.e. small medium or large. The difference is observed in the initial stages after restructuring and within a year or two. Non achievement of projected turnover/ profitability leads to failure of CDR.

Under these circumstances the chances of over finance as well as finance to undeserving borrowers cannot be ruled out.

Details of few cases are shown below:

	Projected vs Actual Sales					
Sr. No	Projected		Actual		Variance	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
1	268	253	129	185	-51.87%	-26.88%
2	72		59		-18.06%	
3	1042	1369	42	106	-95.95%	-92.29%
4	173	248	88	261	-48.97%	4.88%
5	232	254	181	182	-21.98%	-28.35%
6	145	221	177	126	21.84%	-43.16%

G. Large Unutilised Capacity

Large unutilised capacity of a unit is one of the reasonsfor loss. However, unutilised capacity is both on account of recessionary conditions that the economy was facing as well as unplanned and overambitious expansion. Overambitious expansion is achieved both through Greenfield projects and merger and acquisition. In one company capacity utilisation is less than 10%.Out of the 73 cases studied we observe underutilisation below 50 % in case of 19 companies. This leads to conclusion that the large capacities are created without meticulous planning that ultimately leads the company to CDR.

H. <u>Imprudent Accounting&Ethics of Professionals</u>

Companies are resorting to imprudent accounting to delay the declaration of loss. Imprudent accounting was observed in nine cases. The tricks played by companies include advancing the revenue or postponing the expanses. First year the expanses will be postponed to continue a good relationship with lenders and other stakeholders and next year the previous year as well as current year expenses are booked and suddenly the company faces huge loss putting the bankers under pressure to restructure. Similarly many expenses / liability items that must ideally be recognised are not recognised. These are instead disclosed as contingent Liability.

In case of a company Rs. 580 cr. was the redemption premium as on 31^{st} March in one year, however, it was shown as contingent liability otherwise Net Worth would have been lower by the amount. The amount of redemption premium for both the years was adjusted to securities premium account next year resulting in sharp deterioration in the Net Worth. The reasons for such inconsistent accounting are not furnished.

One Company has shown profit in March 2013 Rs 189 cr. However, it has written off inventory Rs 258 cr. in June 2013. Rating of the company was deferred because of non-submission/ disclosure of financial statements in time.We recommend that such cases must not be allowed any concessions. Ideally such cases must be kept outside the purview of CDR mechanism.

I. <u>Financial Mismanagement / Change in Business Strategy / Over Ambition / Lack of Critical Tie Ups / Change in the Original Project / Lack of Meticulous Planning</u>

Commenting on financial mismanagement Chellappah (2001) has advised that "In the course of corporate restructuring, there is evidence of over-capacity and over-leveraging especially in diversified conglomerates, and even poor management in a few cases. A case in point is the over-dependence of Malaysian companies on short-term funds, which averaged 60 per cent of borrowings". This trend is clearly visible in India also. This feature was observed in46 cases studied by us.

One of the most visible reasons that have led corporates to CDR is poor planning. This is reflected through various routes viz. mid-stream change in business strategy / Over Ambition / Lack of critical tie ups / Changes in the original project etc.

In most of the cases studied by us financial mismanagement of following types has been observed:

Companies started aggressive expansion including by merger and acquisition without meticulous planning and because of that cost of interest burden increased many times. Finally most such cases end up in CDR.

We now discuss cases involving changes in activities without meticulous planning that has taken the corporates to CDR. One Company was traditionally in the field of railway infrastructure development. Later on it entered composite Road Construction Contracts in a major way. However, it had not prepared well for the changeover. In a Railway Construction Contract, the materialused to be provided by the Client,while in a composite Road Construction Contract, material was to be procured by the Contractor. As a result of this change in the business mix, the Company's order book swelled substantially from Rs. 1525 cr.to Rs. 3221 cr. in two years necessitating higher working capital for execution of the projects.

However, the promoters were unable to induct own funds i.e. higher contribution in the form of equity as they did not have adequate funds. This resulted in heavy recourse to borrowed funds which in turn led to higher interest costs, lower profitability and mounting debt repayment obligations. Although the operations were profitable, the margin from the promoters could not be built up as the cash flow from operations was negative due to the huge investments in Current assets required to execute the Road Construction contracts.

To take another example a leading company manufacturing vitrified tiles diversified into sanitary ware and artificial marble tiles (Calcareous). However, the production in both the divisions could stabilize only 18 months after the scheduled date. Being a new product, absorbingtechnology and manufacturing a product with desired quality required significant R&D efforts. Instead of learning from the past, the company compounded its mistake. Despite problems in first line of calcareous division the promoters undertook another expansion plan at a Project Cost Rs.120 cr. approximately to set up second line of calcareous tiles by availing term loan of Rs.85 cr.The company also purchased a second hand Wall Tile Plant at a cost of Rs.8.00 cr. which also was commissioned after considerable delay.

All these expansions were carried out without raising long term funds in the form of promoter's contribution. Promoter's contribution was 'managed' by rotating short term unsecured loans. As operations were not generating cash the repayments of term loans were financed by diverting working capital funds. This created severe liquidity problem and it became difficult to run the operations. Eventually the company was not in a position to service the interest and instalments falling due.

Unplanned expansion and dependence of revenue froma single tie up is the reason for problems of another company studied by us. The company owns hotels and resorts and operates in hospitality sector. The company suffered loss on account of massive capex and expansion into various parts of the country. There was only one resort where it made good profits otherwise in all other resorts it was incurring loss.

Companies have gone for expansion even when their liquidity position was too tight. One such Company had total sale of Rs. 527 cr. in 2012. However, 80% of the debtors were overdue. Despite such adverse liquidity conditions, the promoters went ahead with a capex of Rs. 72 cr. for a solar power plant. The company finally landed in CDR.

Changes in the original project have been observed in several cases. Such changes result in additional capex. However, such additional capex did not add to the revenues of the unit.

In case of two companies the unavailability of critical raw material resulted in delay in commencement of production by few years. Such delay deprived the Companies from extracting good business during the then prevailing boom in Steel sector in the state of Odisha. Both companies ultimately went to CDR.

J. Inability of the Promoters to Bring in Their Contribution / to Monetize Assets

Such inability is commonly observed and is also a major reason for eventual failure of the CDR package. We have come across fourteen cases where the debtor could not arrange funds stipulated in the package and CDR package failed. We will discuss few such cases.

We have come across a case where the funding for the promoter's contribution was done partly by long term and partly from the short term funds resulting in depletion of the net working capital. This is a case where the CDR package failed due to the promoter's inability to bring in their projected / required contribution. In another case, the package ultimately failed for the reason that the promoters did not have any concrete plans for raising their contribution. Source of contribution by the promoters should have been validated before implementation of the package (instead of enquiring after implementation of the package). This will prevent the promoters from submitting unrealistic projections and enable creditors to initiate action in time.

We have also observed cases where monetisation of assets was part of the CDR package. Implementation of the package faced problem as some of the assets to be sold were charged to / held by the institutions who did not participate in the package. Such aspects should have been looked into while finalizing the CDR package.

K. Large Pool of Lenders /Lack of Coordination Among the Lenders

It has been observed that there is lack of coordination among the lenders and also lack of due diligence. In one case the CDR package was approved and implemented. The package envisaged sale of certain assets as source of funds. However, subsequently it transpired that the assets proposed for monetization were already charged in favour of a few pension funds who had not participated in the CDR exercise. These funds served a winding up notice after the CDR was approved thus rendering the entire exercise fruitless.

It is observed that when there is a large pool of lenders (20 to 30 lenders) in Consortium and multiple banking arrangements, it is very challenging for banks to ensure financial discipline by the borrower. Borrower takes the benefit of cut throat competition among the lenders. Thisin turn leads to lack of adequate information / control over cash flows of the borrower.

L. Repeated Restructuring

There are fifteen cases of repeated restructuring. To illustrate it was observed in one case that repeated restructuring was carried out and every time the unit's operations were found viable in the TEV study. The strength of the company was huge land bank that it owned. On every restructuring it made payment of overdue obligations by sale of some of the land assets. However, cash from sale of assets is not an endless source. Better option would have been to assess the viability and take an appropriate action.

M. Deliberate Defiance

There are sevencases of deliberate defiance of the terms and conditions of the CDR package. We have come across a case where a company was required to set up Effluent Treatment Plant (ETP)in order to meet the guidelines of State Pollution Control Board for continuing the business at higher capacity. Although a loan for erecting the ETP was sanctioned, it was not erected. The unit is still in CDR and operating at much lower capacity due to absence of ETP. Hence the chances of CDR success are remote. Such cases must be handled firmly.

N. Failure to Assess Risk

There is one case where inability of the debtor and creditors to assess the risk in the business model has led the debtors to huge loss and then to CDR. In one case the company was dealing in exports to Iran. Sudden depreciation of Iranian currency (almost by 50 % against dollar) resulted in the company's customers suffering huge losses. They could not therefore meet their obligations to the company. Eventually the company landed up in CDR.

O. Right of Recompense

CDR is a tool to help the borrowers who are facing distress. In this process banks have to make sacrifice at least in the short run if not in the long run. Right of recompense is a tool available to banks to recover the sacrifice extended when the borrower needed help. However, position on this front is not satisfactory. Out of the 73 cases studied by our team we could find only two cases where the banks could recover the sacrifice. This issue is very critical since the concessions extended are from public money. The concessions are extended in various forms i.e. reduced interest rates, conversion of debt into equity. It has been observed frequently that a computation or record of the recompense amount due / recompense amount recovered is not available.

VIII. SUGGESTIONS / RECOMMENDATIONS

A. Recompense Amount

CDR or any restructuring is not meant to ensure the long term viability or solvency of a debtor. It is essentially a tool to provide breathing space when a company is in distress for a temporary period. The 'Right to Recompense' is the mechanism to ensure this.

It has been observed that the record of the companies in payment of recompense amount is very poor. Out of 73 cases studies only two paid the recompense amount. Since a typical CDR package runs for seven to ten years, recompense amount must be calculated every year separately by all the member banks and be debited and credited to separate contra accounts. Recoveries may be reversed. Unrecovered balance if any may be written off if considered non-recoverable. It will be a notional account without impacting the balance sheet of the bank concerned till actual recovery takes place. The amount must be disclosed in the balance sheet of the bank. Similarly the company too must disclose the amount of recompense accrued in its annual accounts. In the company's annual accounts, the amount may be shown as contingent liability every year. Needless to add, auditors must certify the amount. Such disclosure must form part of the Debtor – Creditor agreement.

This disclosure will give a fair idea to the investors, lenders and other stake holders about the true state and potential obligations of the company.

Disclosures of recompense liability will go a big way in ensuring transparency and serving the interest of all the stake holders. This will also improve the transparency of the entire CDR process.

B. Sale of Unproductive Assets / Associates &Subsidiaries

Guiding Principle in restructuring under CDR must be to save productive assets and not the companies or promoters. Restructuring must be aimed at continuing production as recall may affect the same adversely. It really does not matter to society or nation as to who manages the assets as long as the management of the productive assets is up to mark. The focus must be on preserving the enterprise value and retain the social fabric of the organisation. "The value of the firm need not be destroyed if ways can be found to unlock the hidden values of the assets" (Chellappah, 2001). Hence selling unproductive assets must be first priority and must be enforced as the first condition of any CDR package. Implementation of the other terms and conditions, granting concessions and extension of any further facility must be subservient to this clause. Sometimes due to economic conditions a sale may not be possible immediately. Under these circumstances the assets must be taken over by lenders as trustees. We recommend amendments in the existing statutes if required to ensure this. Till such time legislation is amended, an independent trust / body of professionals may take over such assets under Debtor – Creditor Agreement. It must be stipulated that until the assets are handed over no additional facility / concession would be extended.

Unlocking value by sale need not be restricted only to sale of physical assets. It must include sale of associates and subsidiaries particularly when huge funds have been invested in such associates and subsidiaries and the return on such investments is too low visa vis the funds invested. We suggest that if huge funds are blocked in associates / subsidiaries, shares of these investee companies must be pledged / transferred to lenders invariably. Similarly in cases of diversion of funds outside the company, sale of the assetscreated / acquired from diversion must be first condition for implementation of package.

In case of real estate companies, hotels and resorts the package must start with proposal to sell some of the assets that are not yielding the desired returns and straight reduction of debt by the amount. Banks must take charge of sale through e auction. A company having hotels at say at 5 places cannot be equated to an industrial unit having a big factory where everything is integrated and selling some assets is difficult. Here if some loss making properties are sold, it will not make any difference to the operations. It will only solve liquidity problems. Considerations like company not getting value must be adequately weighed. Best way is that the banks execute the sale by e auction or hold it as trustee in case it is expected to fetch better price in future as mentioned elsewhere.

C. Appraisal for the Group and The Company:

The issues that have come up due to investments made in associates and subsidiaries, step down subsidiaries and related party transactions have already been explained. We suggest that in case the investments in associates and subsidiaries are more than 25% of the net worth, while appraising the Term Loan / Working capital requirements of the parent, the detailed analysis of financials of associates and subsidiaries must be undertaken. The analysis must comment on their capability to earn sufficient income to give dividend to the parent on such investments. Any investment that cannot generate income greater than the average cost of borrowings for the parent, at least in the long run, is not worth.

We also suggest that in case the investments in associates and subsidiaries are more than 75% of the net worth, the appraisal must be carried out on the lines of an investment company and not a manufacturing company. This is very logical since it is expected under such dispensation that major profit must come from investments. Same provision may be applied if more than 50% of the long term funds (equity & Long term loans) are invested in associates and subsidiaries.

D. Loss Incurred on Account of Writing Off of Investment Need not Necessarily be a Reason for CDR:

Rationale has been explained under 'Step down Subsidiaries'.

E. Related Party Issues

Sale / purchase transactions within the group companies and transfer of funds from one entity to another entity on regular basis are regular features. Such transactions must ideally be conducted at arm's length pricing. Wherever such transactions are more than 10% of the turnover of either of the entities, a special audit by a chartered accountant must be insisted to ensure that the transactions are in ordinary course of business and have been conducted at arm's length pricing.

We also recommend that banks do not take exposure to very complex structures which they find difficult to understand. There is no reason for them to just believe what company says. Best way is to have simple structures and ring fence the cash flows. This has been done by the bankers of a leading German company which was acquired by an Indian company. The bankers of the German company did not allow the acquirer company (Indian) to use the cash available with the subsidiary. We can also start thinking in the same direction.

F. Imprudent Accounting& Ethics of Professionals

As cited under observations imprudent accounting also leaves a question mark on the working of accounting professionals. Banks may circulate a list of such companies among themselves indicating the professionals involved, so that the other work done by these professionals is used with appropriate caution.

G. Management Change

Volumes have been written on corporate governance. All the literature on corporate governance lays down the principle that a company and management are two different entities. It is time to take cognisance of the same. It really does not matter to society or nation as to who manages the productive assets as long as the management of the productive assets is up to mark. Hence change of management where ever desired must be explored.

It is extremely difficult today to implement management change; however, unless we start thinking in that direction we cannot proceed. It is time for banks to think of using specialised management agencies that can take over the companies that have productive assets and keep the assets in running condition. Takeover of SATYAM management by Mahindra is a good example of preserving the productive assets of the society. If we can develop a few management agencies we will be able to ensure that the productive assets remain in safe hands. Such 'Managing Agency System' was prevalent in British India. Desai (1948) has mentioned that 'By this system a relatively small number of managing-agency firms promote, control and to a considerable extent finance the various industrial companies and enterprises, govern their operations and output, and market their products, the board of directors of the companies fulfilling only a subordinate or even nominal role'. We may tweak this structure and have structures more suitable to today's requirements. Asset Reconstruction Companies may also explore taking up additional role as managing-agency.

This will require mobilisation of human resources from the concerned industry. Adequate compensation to such personnel or giving them outright management contract on profit sharing basis are various options available that may be examined in detail.

We understand from newspaper reports that government is considering giving more powers to banks to reconstitute the boards of such companies. (Business Standard 12/08/2014). Chairman of SBI has also echoed similar voices when she said "we will try to bring in management agency which will look at day to day running of Bhushan Steel. This is very good quality asset, it is running properly and we don't want it getting into any kind of trouble" (Times of India 12/08/2014). Earlier such steps are taken better it is.

H. Promoters' Contribution &Monetization ofAssets

We also suggest that once the debtors agree to sale of assets, those assets must be handed over to the creditors for sale. This will function as a deterrent to the non-serious debtors who commit to sale assets to get the package approved however, never get around to actively selling the asset.

Restructuring must be implemented only after Promoters' contribution comes as cash or the assets are taken over by an agency nominated by banks. Public issue as a source of funds will be distant possibility in case of companies under CDR and hence should not be accepted. If the promoters' contribution is being received from associates and subsidiaries, a detailed audit of the financials of such associates / subsidiaries must be undertaken to ensure that those companies will be able to spare the cash without jeopardising their own health.

While minimum promoters' contribution may be fixed at 25% of the lenders' sacrifice, actual contribution from promoters must be based on the assets available for sale. If such assets are higher, a higher contribution must be stipulated. Identification of the assets that are not in use must be part of CDR application.

I. Policy Changes at Government Level

In view of the issues involved in direct government support for CDR we are not in favour of direct lending by the Government of India or its agencies for success of CDR package as we feel banks are much better placed to assess the viability of a corporate and take decision as to whether a particular case must be approved under CDR. However, government intervention is certainly required in the form of enabling legislation. It is observed that there is no separate law for CDR and the inter creditor or debtor creditor agreements are executed under the age old law of contract. In the absence of an enabling legislation there is no specific legal pressure that can be brought on the debtors & creditors to fulfil their commitments. It is observed that in many cases CDR failed as promoters failed to either bring back the diverted funds or failed to dispose of the assets. These developments clearly indicate the non-serious attitude on the part of debtors. Commitments are made to break the same and seek approvals under CDR. Time lines have no sanctity. On few occasions lack of seriousness has been observed on the part of creditors also.

We may take a cue from Spain. The new regulation introduced by Spanish Government basically includes legal reforms in the Insolvency Act. Just to name a few: it enlarges the class of cases that can be resolved effectively without relying on the courts; it facilitates individual refinancing agreements; it changes the conditions under which a pre-liquidation agreement is protected; "fresh money" is to have super senior consideration in the event of liquidation; refinancing agreements can include debt-to-equity swaps; and the role of experts' reports in the insolvency process is diminished. In addition, the Royal Decree Law allows the Bank of Spain to improve the treatment of bank loans loss provisions -essentially the banks that participate in recapitalization agreements will be able to free capital provisions whenever they grant new loans to troubled companies.

Following these legislative amendments Metrovacesa, Spain’s largest real estate company was forced to hand over control to its creditor banks following a Euro 738 million loss in 2008. The company was forced to swap 55% of its stake for a loan of Euro 2.1 billion (Grigorian and Raei, 2013).

Currently taking over the management of a company is an impossible task for the Indian bankers. A bank neither has expertise to run a company nor is the prevailing legal framework facilitates this. Early detection and timely corrective measures are sin qua none for the success of CDR. Hence banks must be enabled to easily implement management change where ever the existing management is found to be incompetent or a will full defaulter. This will go a long way in making CDR an effective preventive tool.

J. Closure of All Accounts Outside Consortium / MBA

Closure of all accounts outside consortium / MBA banks must be the pre-condition for implementing the CDR. Banksconcerned must be asked to close the account immediately. Restructuring should not be implemented unless all accounts outside consortium / MBA banks have been closed. Lender banks have full charge on cash receivables. Any action that takes away the cash that belongs to lenders is a deliberate diversion. The promoters must be declared will full defaulters immediately and their bankers who open / allow continuation of accounts outside the consortium must be booked for collusion.

K. Perform or Perish

Following condition must invariably be part of Debtor – Creditor agreement:

If the projected parameters are not being achieved for whatever reasons the promoters should undertake to transfer their equity progressively to the lenders. A schedule may be drawn based on the principle that wider the negative variation between projections and actual results higher the equity transfers.

The agreement must also contain penalties on lenders who back out after initially agreeing to the CDR terms.

L. Restriction on Number of Bankers in Multiple Banking

Presence of huge number of lenders in a multiple banking arrangement is prone to misuse by promoters. The number needs to be restricted. There should not be more than 5 to 7 financer of a company under multiple banking arrangement. RBI may stipulate the maximum number of banks, NBFC & FIs under multiple banking arrangement (MBA). If the number exceeds formation of consortium must be made mandatory. It was observed that if a borrower is enjoying credit from more than 10 banks/ FIs it is virtually impossible for any institution to impose financial discipline on the borrower. If consortium banks are refusing to extend further finance, debtors approach other banks/ FIs outside the consortium and avail credit on the basis of exclusive charge on the assets being financed. They are also able to arrange the margin money for acquiring new assets. Margin money in such cases is usually diverted from the existing finance extended by the consortium banks. Hence it is essential to put a cap of maximum numbers of banks and FIs under MBA. It should not be more than 5 to 7. Beyond this consortium formation must be made mandatory.

M. Declare the Name of Bankers in Annual Accounts:

It should be made mandatory (under Companies Act 2013) tomention the name of all bankers of a company in its annual accounts. Such mention must be under two categories i.e. banks from whom credit facilities have been availed with specific details and banks from which credit facilities have not been availed but a banking relationship is maintained by virtue of having current account etc.

Further, opening of account without the permission of consortium / MBA members must be declared an offence punishable under law. This will go a long way in enabling monitoring of the cash flow of the borrowing companies.

N. **Ban on Promoters/ Guarantors on Floating New Ventures/ Taking Directorship in Other Companies:**

During the currency of CDR promoters and directors should not be permitted to float new ventures or take directorship in other companies. This must be a condition under debtor creditor agreement. Even now promoters of one company under CDR are buying IPL/ kabaddi teams.

O. **Examination of Salary Package of Directors/ Promotersand Declaration of Dividend During Last 3 years:**

In case of companies referred to CDR, remunerations received by directors during three years preceding CDR must be commented and be a decision making parameter.

Similarly, dividends declared during last three years by a company referred to CDR must be examined. If dividends have been paid, the sources of payment must be ascertained. This will give some indications on the genuineness of the intentions of the promoter.

P. Change in the Format of TEV Study:

It has been observed in all 73 cases that TEV report is not very meaningful. For justification of CDR, TEV study should be very elaborate. Besides Technical Feasibility & Economic Viability, it should cover the following aspects:

(i) What are the efficiency parameters of similar units in the similar area with the similar size? What are strengths of other unit that they are surviving and unit under CDR is facing problem? Report must specifically comment on the factors that account for this difference.

(ii) What are the steps that are required to address these factors? The CDR package must specifically address these issues.

Q. **Prompt and Coordinated Support by Bankers:**

Delay in credit decision or lack of coordination among banksalso delayed the formation and implementation of CDR package and because of this, further deterioration in the healthof the unit is one of the reasonsfor failure of CDR. Prompt action is a must for success of CDR. RBI has initiated the process by issuing revised guidelines in February 2014, to the effect that all the lenders should join CDR otherwise their repayment (who are not joining) must start after unit starts making profits.

R. Criteria for Identification:

Chances of misuse of CDR cannot be ruled out. Hence it is necessary that an effort be made to lay down broad guidelines for reference to CDR although is it ultimately the decision of the lenders. Stress is considered as the basic reason for CDR. Stress emanates from adverse economic conditions induced by internal or external factors. Few indicators of stress are:

- Consistent decline in the overall GDP for four consecutive quarters leading to consistent decline in the overall sales / profitability of a particular industry for 2 to 3 consecutive quarters
- Sudden developments in the macro economic conditions that affects one particular industry and decline in the overall sales / profitability of a particular industry is observed for 2 to 3 consecutive quarters
- Other sudden developments that results in decline in the overall sales / profitability of a particular industry for 2 to 3 consecutive quarters

S. <u>Relevance of the Study in the Era of JLF:</u>

Our findings will remain as valid as now. We are commenting on the basic parameters of restructuring to be followed even by JLF.

IX. __ISSUES IN PROVISIONING& RECOMMENDATIONS__

Issues in provisioning arise from ‘Restructured Standard Assets (RSA)’. There are three issues in CDR provisioning:

- Asset Classification on Restructuring,
- Restoration of Assets Classification of Restructured Accounts,
- Provisioning on Restructuring

A. Assets Classification on Restructuring

The concept of standard restructured assets arose when the RBI allowed project loans to retain their standard asset classification on extension of their repayment schedule in May1999. RBI’s approach to provide this liberty to bankers was that, it may be permitted if in the opinion of the bank, the bottleneck in achieving regular commercial production was of a temporary nature , not indicative of any long-term impairment of the unit’s economic viability and the unit was likely to achieve cash break-even if some more time was allowed. This was extended to treatment of restructured accounts in March 2001. With the issue of comprehensive guidelines on restructuring in August 2008, thisregulatory forbearance was made available to all types of restructured accounts except commercial real estate exposures, capital market exposures and personal and consumer loans.

The rationale warrants that the need for restructuring arises when a standard category borrower faces difficulties in repayment and such an account should be classified as non-performing till the main cause of distress is resolved. As per the best international practices, throughout the world, accounts are categorized as impaired on restructuring. Following the best international practices, RBI has prescribed that from 1st April, 2015 on restructuring, account will be categorized under NPA. No regulatory forbearance will be available from 1st April, 2015 onward. The approach of RBI is in line with best international practices and reduces chances of CDR being used for ever greening. However, few suggestive measures are as given below:

Indian economy is passing through rough weather. With a full majority government at Centre, it is envisaged that decision making will be expedited particularly in infrastructure projects. However, impact of such faster decision making will be felt later on in the balance sheet of corporates. Banks are already hard pressed because of higher capital requirements under Basel III implementation.

We suggest that restructuring should be categorized under three categories as under:

Category- I	Restructuring on account of the weakness of financial health of the company and factors controllable/ manageable by promoters/ management of the company.
Category-II	Restructuring on account of delay in obtaining regulatory clearance for which promoters/ management of the company is not responsible

Category-III	Restructuring on account of stress in the macro economic conditions that affect a particular industry or economy as a whole

In case of category-I above, account should be downgraded on restructuring. However, in case of category II & III, regulatory forbearance of maintaining assets under standard assets should continue, as per the spirit of RBI's original instructions in 1999.

Further, to address the genuine concerns of RBI on ever greening, we suggest that provisions in a restructured account (Category II& III cases) must be linked to the variation between the financial projections accepted for CDR and the financials achieved. A positive variation indicates that the restructuring scheme is on track and hence there is no need for provisions. However, a negative variance indicates failure or company being behind the schedule hence warranting provision. We suggest that the provision requirement may be arrived at based on five critical parameters of sales, profit, gearing, current ratio and promoter's margin with equal weight.

Negative variation	Additional Provisions
< 10%	Nil
10% to < 20%	2%
20% to < 30%	5%
>30%	Account should be classified as NPA and attract provision as per RBI Norms

Once the provision is done as per RBI norms it will continue to be done on the similar lines.

B. Restoration of Assets Classification of Restructured Accounts

As per the best international practices, restructured accounts are upgraded after satisfactory payment of interest/ instalments for 3 to 6 months after moratorium. Similarly RBI guidelines prescribe that all restructured accounts which have been classified as non-performing assets upon restructuring, would be eligible for up-gradation after one year of regular payment from the date when the first payment of interest or instalment of principal falls due under the terms of restructuring package.

Our Recommendation:

Restoration to Standard category may be linked with period of restructuring and bank's sacrifices. Regular repayment of interest/ instalment up to one yearor repayment of loan instalment/ interest equal to the bank's sacrifice amount, whichever is later should be minimum criteria for up gradation of asset to standard category. This will deter lenders from fixing lower instalment in the initial years.

C. Provisioning on Restructuring

As per RBI's IRAC norms provisions on restructured standard accounts should be 5% on standard assets and other than standard assets as per IRAC norms.

Our Recommendation:

In case of restructuring of Standard Accounts, 100% provision for the difference between the bank's sacrifice amount and additional collateral brought by the promoters should be made.

In case of NPA accounts, provision as per IRAC norms and additional provision as calculated above should be made.

X. ***SNAPSHOT ON FEW COMPANIES THAT HAVE GONE THROUGH CDR***

(The names are not real)

Case 1

Background:

The company was as a private limited company in seventies and subsequently converted into a public limited company in 2004. The company is engaged in manufacture of Tractor Tugs, Cargo Ships, Tankers and vessels required for offshore industry. The company has developed capacities for design and construction of various types of sea going, coastal, harbour and inland crafts and vessels. Companyhasshipyardsat various places.

In2010, company throughitswhollyownedsubsidiarieshadacquiredstrategicshareholding(managementcontrol)inGurugramOffshoreLimited(GOL).Asthe companywashaving49.73%stakein GOL Ltd., one of the promoters (Managing Director) ofBSLhasbeeninductedasChairman of GOL Ltd.

During2010-11,the company throughitssubsidiarycompanyNEPPvt.Ltd.acquired controllinginterestinanother shipyardnamelyM/sTS Ltd(TSL). Thetotalacquisitionwas51%equitysharesofTSLcapital.Theaccounthadbeenrestructuredunder CDRpriortotakeoverbyBSL by one of the existing Banker.

Bankers had sanctioned two unsecured short term corporate loans of Rs.50.00 cr. each during 2010. The STL-1 was liquidated in 2011. However, the company failed to repay the last 2 instalments of the

STL-2 of Rs.16 cr. each fallen due during 2011 resulting in the account being classified as NPA.

Major Adverse Features / Issues

COD: 01.10.2010

DOA by CDR: 25.06.2011 (Almost after nine months)

Implemented on 28.09.2011

CDR is taking longer time for approval and implementation. This throws all the projections out of gear. This needs to be improved for success of CDR.

Additional funding considered: Rs.1317 Cr

In addition to above, further funding considered for Rs. 600.00 cr. due to delay in implementation of CDR. (This reinforces the view that the delay in approval and implementation of CDR is adversely affecting financials and projections of the company and puts additional burden on financial system)

Company is not adhering to terms of sanction of CDR. Additional contribution has not been brought in time. In view of this capex loan was cancelled.

Company is not routing sales through Trust &Retention Account as per the terms of approval. This is happening despite being brought to company's notice several times.

Financial discipline needs to be enforced post CDR. Non adherence to financial discipline must be treated as critical violation of terms and conditions and must trigger cancellation of approval of CDR and entire amount including ROR amount be recalled immediately.

It has been observed that company is entering into separate agreements with non-consortium banks / FIs without approval of the CDR EG.

AdjustedTNWbecamenegativeandthedeteriorationwasdueto loans / investmentofRs.1096 cr.in subsidiaries/associate/jointventures.

Financial Performance of the Company

(Figures in cr., Figures in bracket are Estimates)(Rs. in crore)

As on 31/03	2011	2012	2013	2014 Projections	Actual Dec 013
Net Sales (Value)	1579	1397.51 (1406.21)	506.15 (760.10)	1650.00	174.17
Operating Profit	118	-71.54 (-16.29)	-539.76 (-334.87)	-260.80	-590.98
PBT	179	-48.58 (-16.29)	-539.76 (-334.87)	-260.80	-590.98
PAT	113	-48.58 (-16.29)	-492.27 (-334.87)	-260.80	-549.78
Cash Accruals	134	-8.61 (32.06)	-445.43 (-291.73)	-210.80	-512.43
PBDIT	526	441.12 (444.09)	-52.78 (157.32)	367.60	-138.11
TNW	949	982 (1017)	547.73 (647.79)	799.44	NA
Adj. TNW	-133	-130 (-75)	-ve (-389.62)	-237.97	NA
TOL/TNW	4.85	5.47 (5.18)	10.51 (9.82)	7.20	NA
Current Ratio	1.32	1.16 (1.52)	1.12 (1.32)	1.33	NA
NWC	640	401 (1130)	230.73 (708.14)	906.12	NA

Case 2

Background:

HVL was incorporated in 1981 as a Private Limited Company to set up and operate 5-star hotels. The Company converted to Public Limited Company in March 1973.

The Company owns and operates 5-star hotels in India under a leading Brand Name. It has many properties at various locations like Mumbai, Goa, Bangalore, New Delhi, Udaipur in Rajasthan and Gurgaon in Haryana. Other properties owned by the Company are coming up in Chennai and it has acquired land for its Agra, Hyderabad and Pune locations.

Observations:

COD: 01.01.2012

CDR approval by CDR EG: 12.09.12

CDR cell is taking longer time

Additional facilities granted by CDR Cell Rs. 900 Cr.

Total sacrifice amount of all banks Rs.271 Cr

Current ratio of the company has declines to 0.10% and leverage has gone up to 12

Terms of CDR not complied with. Non-core assets not disposed as per CDR package.

Company approached the CDR cell for extension of moratorium period for payment of interest and principal within 1st year of approval of CDR.

Projected sales as well as profit not achieved. Sales were down by 10% in first year, EBITDA down by 45%.

Restructuring carried out in past and reasons for failure of such efforts:

In view of the heavy investment and the long gestation period, the company had requested the lenders of the Delhi Hotel to allow a longer repayment schedule. In response to this request, the lenders of the Delhi Hotel restructured the repayment schedule in 2011 keeping the original tenor of ten years.

High Operating Leverage: The Company had very ambitious plan of expansion without considering the cost, time and resources allocation.

The Company has high operating leverage mainly because of borrowings for setting up new hotels. The total capital expenditure on these super luxury hotels is about Rs 3,300 Cr.

FCCB could not get converted into equity, because of that debt cost and exchange cost increased.

Rating Agencies have suspended ratings due to non-submission of required information for rating. It should be taken seriously by banks and request for fresh loans should not be considered.

Ambitious unplanned expansion by the company is the basic reason for financial crisis. Long gestation is the peculiarity of Hotel business. Company is purchasing hotel & disposing properties like reality business. There is no justification for incurring high capex when it does not have the capacity to even serve the interest.

Performance & Financials

(Rs` in Cr.)

Particulars	2011	2012	2013	2014	2015
	Audited	Audited	Audited	Proj	Proj.
Net Sales	525.82	571.09	653.86	775.02	760.10
Op. Profits	31.91	-359.99	-429.50	-390.54	-146.47
PBT	55.27	23.36	-421.38	-254.35	-87.38
PBT/Net sales (%)	10.51	4.09	-64.44	-32.82	-11.50
PAT	36.52	18.64	-433.47	-254.35	-87.38
Cash Accruals	106.78	120.88	-294.79	-114.35	37.96
PBDIT	173.15	446.85	122.64	321.23	316.80
PUC	77.57	77.57	73.73	89.73	109.73
TNW	1037.44	805.85	424.35	292.04	621.93
TNW (Adj.)	1037.44	805.85	424.35	292.04	621.93
TOL/TNW	3.93	5.79	12.07	10.64	4.56
TOL/TNW(Adj.)	3.93	5.79	12.07	10.64	4.56
NWC	-39.27	-637.78	-1938.26	-52.47	161.33
Current Ratio	0.93	0.32	0.10	0.87	1.40
Gross Block	6305.68	6133.29	6279.76	4205.21	4168.21
Net Block	5786.10	5568.70	5600.00	3472.19	3309.85
Intt to Cost of Sales %	15.45	41.90	43.56	43.41	36.40

Case 3

Background:

XFL was incorporated as a private limited company in the early nineties which was subsequently converted into public limited company in the same year. It was a vertically integrated textile company, engaged in the manufacturing of a wide range of fabrics and garments. The company had manufacturing facilities primarily for yarn dyeing, weaving, fabric processing (including dyeing and printing) and garment manufacturing. They also had in-house Product & Design Development Centre to cater the market demand of new products in every season. The company was performing well till the year 2012 with an impressive CAGR. However, the mega expansion, that the Company undertook, led to significant increase in the Finance and Depreciation cost which resulted in reduction of Company's Net Profit Margin.

Performance and Financial Indicators

Particulars	2011-12 Aud.	2012-13 Aud.
Net Sales	2734.96	3194.79
PAT	206.51	188.76
Cash Accrual.	423.74	459.98
P.U. C.	134.60	134.60
TNW	2925.16	3114.25
Adjusted TNW	2236.37	2412.15
TOL/TNW	1.45	1.66

Major Adverse Features and Issues

The ratings was suspended as the Company had not furnished the information required by CARE for monitoring of the ratings from 26.11.2013 but account was shown as Standard as on 31.08.2013.

Company had undertaken overambitious capacity expansion over last 4 years. The total capex undertaken for the Mega Expansion Programme, acquisition of other manufacturing units was approximately .Rs. 4,554 Cr. The capex was funded through debt of approx. Rs.1,626 cr., equity of approx. Rs. 2006 cr. and internal accruals of approx. Rs. 921 cr..

Company has given interest free loans of Rs. 600 cr. to four subsidiaries repayable over one to seven years.

Company’s accounting policies needs a relook. It has postponed the expenditure in 2013 to inflate profit. The company has shown profit of Rs 189 cr. in March 2013 and wrote off inventory worth Rs 258 cr. in June 2013.

External Rating Agency had suspended rating in 2012. It should have been taken seriously by the banks however, account was standard in 2013. It may be noted that statutory payment as on 31.03.2013 Rs 41 cr. (TDS Payable, PF Payable and tax) were not paid in time.

Case 4

Background:

XIL is a public limited company engaged in manufacture of Polyester Filament Yarn in India with product range including Polyester Chips, Partially Oriented Yarn (POY), Polyester Texturized Yarn (PTY), Fully Drawn Yarn (FDY) and twisted filament yarn.

The company undertook Continuous Polymerization project which was backward integration and was aimed at creating capacity for manufacturing an intermediate used for production of POY. The commercial production successfully commenced in July 2013. The Capacity of this plant is about 3.5 times the existing Capacity of POY. Considering both plants are operating at 100% capacity utilization, the same may lead to generation of surplus backward capacity.

Performance and Financial Indicators

(Rs. in crore)

Particulars	**2011-12**	**2012-13**	**2013-14 Projections**
Net Sales	682.73	713.36	399.86
PAT	3.73	3.71	(110.39)
Cash Accrual.	27.78	29.27	(73.51)
P.U. C.	25.31	40.65	40.65
TNW	105.62	152.80	54.74

Major Adverse Features and Issues

Company had invested Rs. 210 Cr. in the backward integration plant which created huge surplus capacity and significant debt obligation for the company. Further, there was diversion of funds from short term to long term uses.

Case 5

Background:

The Company is into hotel business having properties spread across many cities in south.

Performance and Financial Indicators

(Rs in cr.)

FY ending March 31	**2011**	**2012**	**2013**
Net sales	41.79	37.85	37.07
EBITDA	(0.17)	4.01	4.36
Interest/Financial Charges	7.27	14.23	14.19
Depreciation	4.89	8.04	7.98
Non-oper. Income/(loss)	0.37	0.48	1.07
Tax	0.54	(5.22)	(1.06)
Net profit/(loss)	(12.53)	(17.72)	(15.69)

Major Adverse Features and Issues

Delay in COD of Coimbatore hotel and deferment of IPO affected the overall cash flow of the Company and it was facing problems in repaying the instalments of the term loans. It led to restructuring of the loans.

Even after restructuring in 2011 reducing the principal instalment to match its cash flow, the company had not been able to service the TL instalments and interest. Hence the promoters started disposing off the hotel property to match the cash flow requirements. However, the Company still continued to face a difficult business environment.

The company has approached CDR EG for 2nd restructuring and in principle approval for the same has been given. CDR has admitted the proposal for 2nd restructuring.

Company is engaged in Hotel business and unplanned expansion without proper planning for cash accrual is the major problem with the company. This resulted in higher interest burden and loss.

Quick disposal of unproductive assets is only solution to make company viable.

Realistic estimation of cash flow was not envisaged at the time of sanction of the loan/ or CDR

Case 6

Background:

FFL is a wholly owned subsidiary of energy major, incorporated during 2006, with the objective to manufacture casting and forging components viz., Hub bodies, Main frames, Rotor shafts, Bearing/ Gearbox housings, Torque Arms, Planetary carriers, Flanges, Gear Rims, Ring Gears/ bearings, which find major application in engineering industry, more particularly wind energy segment/systems.

FFL has established its foundry unit and forging unit at two different places.

Performance & Financials

(Rs in cr.)

As on 31st March	**2010**	**2011**	**2012**	**2013**
	Actual			**Projections**
Net Sales	104.11	357.61	309.30	123.67
Op. Profits	- 127.82	-111.29	-122.91	-177.39
PBT	-125.71	-116.05	-119.60	-174.39
PBT/Net sales (%)	-120.75	-32.45	-38.67	-141.01
PAT	-123.82	-116.05	-119.60	-174.39
Cash Accruals	-84.14	-41.99	-52.48	-109.63
PBDIT	-25.58	28.87	34.14	-28.17
PUC	241.25	241.25	241.25	241.25
TNW (Adj.)	340.27	229.30	163.81	-121.16
TNW	340.27	229.30	213.81	170.14
NWC	27.04	-107.46	-237.20	-29.72
Current Ratio	1.15	0.67	0.46	0.85
Intt to Cost of Sales %	27.90	15.79	20.93	30.10

Major Adverse features & Issues:

Company was established in 2006 and started operations in 2008, however, operations of the Company are yet to turn into profit. The accumulated loss was Rs.579 Cr up to 31.03.2013.

Reasons for the losses are low capacity utilization (< 10%).

Substantial Dependency on Group

FFL was established primarily as backward integration for the parent's manufacturing businesses. The majority of unit's off-take (80%) was to the parent group. However, in 2009, demand for the product in which parent was dealing reduced globally primarily on account of decline of demand from the US & European markets due to the economic recession and credit crisis. This resulted in reduction in FFL's orders and affected its financial performance

TNW has eroded by 50%, in last 3 years but no fresh infusion of capital has taken place.

Rating Agency has suspended the ratings in 2012 as the company has not furnished the information required.

- **High Inventory**

Sluggish order book position & deferment and/or cancellation of committed off-takes in the initial period of operations resulted in high inventory pile-up which was responsible for blocking the working capital limits extended to the Company. Hence, this led to an additional interest cost burden on account of the same.

Case 7

Background:

EML was incorporated in mid-nineties, along with its subsidiaries. EML is one of the world's largest players in energy solutions. While the entities in “The Group” are primarily responsible for manufacturing and marketing in India, its overseas subsidiaries mainly provide marketing, O&M and R&D support services across different countries.

EML is an integrated global entity, with operations spread across 33 countries and 5 continents around the world.

Over the years, the Company had acquired several overseas subsidiaries of which two major overseas companies acquired were:

i) HTL Inc. (acquired at Euro 360 mn. in 2006; since sold at Euro 450 mn and

ii) Epower Ltd (acquisition cost of Euro 1455.53 mn).

At present company has 78 subsidiaries having an investment/loan and advances to the extent of Rs.11000 cr.

<u>Performance & Financials</u>

(Rs. In Cr.)

	Actual 2010-11	Actual 2011-12	Est. 2012-13
Net Sales	7397.56	8032.09 (10850.69)	3565.73
Operating Profit before interest	485.88	417.45	(1,143.36)
PBT	-214.49	-471.94 (362.57)	-2176.03
PBT/Sales (%)	-2.90%	-5.88% (3.34)	-61.03%
PAT	-192.79	-478.79 (337.57)	-2235.32

Cash Accruals	61.60	-215.95 (586.07)	-1960.64
PBDIT	845.49	739.73 (1597.07)	-822.99
PBDIT/Int.	1.05	0.80 (1.60)	-0.76
PUC	355.47	355.47 (375.50)	355.47
TNW	7314.44	5855.56 (7893.76)	4066.31
Adjusted TNW	-2442.53	-5315.24 (-16.15)	-5364.30
TOL/TNW	1.93	3.20 (1.88)	4.37
TOL/ Adjusted TNW	-5.78	-3.52 (-ve)	-3.31
Current Ratio	0.72	0.63 (0.93)	0.65
NWC	-2299.01	-4270.95 (-648.47)	-3144.94

Major Adverse Features and issues

There 78 Associates and Subsidiaries in the group which makes it very complex structure. The acquisitions have been made through a complex structure as there are many tiers between the company and flagship subsidiaries. There is lack of transparency in related party transactions.

Huge investments in Associates and Subsidiaries have made its adjusted net worth negative. However the return on these investments is almost nil resulting in company incurring huge loss since the entire cost of acquisition by way of interest on borrowings is being born by the company without any return on the same.

More than 50% of the assets are by way of loans to and investments in subsidiaries.

The accounting policy of the company needs a relook. During a year an amount is not recognised. It is instead shown as contingent liability. Next year the entire amount of previous as well as current year is charged in the balance sheet.

Case 8

Background:

HPL is a construction company, which is engaged in the business of Underground/Tunnel works, Canal/Irrigation works, Metro Rail Projects, Mining Projects, Highways, Buildings, Border Fencing works, Hydro Power Projects etc. The Company is executing contract works for corporations from private and public sector across various states in India. With the core experience it has gained in the field of tunnelling, it has formed joint ventures with better competencies and financial strength to take up certain mega projects in civil works of power generation and irrigation to expand its horizon in construction sector, but mostly on EPC contract basis.

The company is highly diversified across sectors and geographies executing projects across India.

The clientele of the Company mostly comprises Central Government/ State Governments. The Company also has national and international strategic tie-ups in the form of joint ventures for project execution.

Performance & Financials

(Rs. in crore)

Particulars	**2011**	**2012**	**2013**	**2013**
	Audited	Audited	Estimated	Audited
Net sales (value)	2099.94	2408.30	3041.00	2365.17
Operating Profit	216.35	133.51	167.91	42.55
OPM% (OP/NS%)	10.30%	5.54%	5.52%	1.80%
PBT	251.80	154.91	233.91	76.95
Depreciation	153.07	194.25	232.38	199.99

PBT/N Sales	11.99%	6.43%	7.69%	3.25%
PAT	158.40	85.73	134.50	36.08
Cash Accruals	311.47	280.08	366.88	236.07
PBDIT	573.57	645.85	765.66	670.71
PUC	18.81	18.81	22.81	18.81
TNW	734.59	820.64	1455.75	872.60
Adjusted TNW	541.12	607.09	1338.33	623.93
TOL/TNW	2.66	3.48	1.80	3.89
TOL/Adj. TNW	3.61	4.70	1.96	5.44
Current Ratio	1.08	1.15	1.49	1.08
NWC	119.01	321.32	973.53	130.98
Gross Block	960.18	1222.88	1430.88	1396.52
Net Block	649.87	721.53	697.15	738.07

Reasons for Current Stress:

HPL operates in niche business segment, i.e. Tunnelling and hence has been making consistent operating margins till last financial year. However, external factors such as change in government policies and overall down turn in the economy; mounting debtors for more than 6 months led the company to losses for the first half of the financial year FY-2014. The company was also impacted by the depreciation in the value of the rupee since foreign currency borrowings were not hedged.

Further, inflow of fresh orders was lower. The slowdown in the infrastructure sector, non-availability of fresh orders, issues in execution of existing orders and lower conversion from revenue to cash on account of receivables, unbilled revenue and work-in-process has strained the cash flow position of the company.

Major Adverse Features and issues

The company is having 5 subsidiaries & JV where it has investment of Rs 160 cr.. In case of infrastructure companies, subsidiary route is an accepted practice. However, credit assessment must be done at group level and CDR should consider the CDR of Group and not of a particular company.

External rating is suspended by rating agency in 2012.

Case 9
Background:
The company is running a Hydro Power Project aimed at providing power to two states and drinking water and irrigation facilities. An escrow agreement was executed with the state electricity board. A 35-year Power Purchase Agreement was also executed with the state electricity board.

However the project did not go well due to various agitations and other legal issues, leading to delay in implementation of the project.

After receiving permission from ministry of environment to resume construction in 2011, the project had been waiting for over a year for environment clearance to fill the reservoir in stages. In mid-2012, the ministry granted this approval.

The company had an exposure of Rs.1932 Cr from the banking system.

Since the company is under implementation, no financial have been submitted.

Reasons for CDR:

The company approached CDR cell citing the following reasons;

a. Project could not be implemented due to environmental issues
b. Increase in cost due to change in R&R policy from Rs.175 Cr to Rs.979 Cr.
c. PPA agreement with state Government changed affecting viability of the project.

Observation:

There was a change of DOC through the CDR

TEV study did not establish viability of the project and as a result no fresh exposure was taken by the banks.

Subsequently, the account was declared NPA by one of the bank w.e.f 01.06.12 due to non-achievement of commercial production.

Case 10

Background

The company established in 1995 is engaged in the manufacturing of drug and pharma products. The company went into expansion mode aggressively and the incurred huge Capex for capacity expansion mainly by short term.

The Company funded the last two stages of project with short term funds at high rate of interest.

The company had a total exposure of 1011 Cr from the banking system.

Key financial:

(Rs. in crore)

Accounting year ending	March, 2009	March, 2010	March,2011	March, 2012
Net Sales	965.75	1067.41	827.63	151.49
Interest	75.04	80.75	109.27	58.36
OP after interest	79.71	146.77	14.03	-242.90
PAT	37.13	86.18	-68.81	-307.49
TNW	271.65	393.56	249.79	238.31
Current Ratio	0.76	0.65	0.77	0.13
ROE	15.88	14.33	5.12	-12.01

Reasons for CDR:

The company approached CDR citing the following reasons;

a. The company went for capacity expansion and setting of new plant using short term funds.
b. Generation of funds was not sufficient to service short term loans.
c. Payments of ICDS and STL put pressure on cash flows of the company.
d. Inadequate cash generation leading to liquidity problems.

Observations:

CDR proposal was mainly for seeking NOC for raising funds from outside sources.

The company was involved in creative accounting as Advances to various suppliers for CAPEX were shown as book debts. Further stocks received for job work were included in the stock statements.

Subsequently, the account was classified as NPA. Various banks filed suits for recovery of its dues.

Reasons for failure of CDR:

The company failed to sell one of its units.

Case 11

Background:

Company was originally incorporated as Private Limited in 2000 and subsequently it was converted into a Public Ltd in April, 2006.

The company is engaged in construction activities in India. It began operations as a construction company in the field of railway infrastructure development, mainly in the state of Odisha and subsequently expanded their business activities in the zonal jurisdictions of East Coast Railway, South Eastern Railway, South East Central Railway, Southern Railway and North Western Railway. However, in recent years the Company has also pursued opportunities in other parts of India including the states of Chhattisgarh, Rajasthan, Jharkhand, Haryana, Kerala, Andhra Pradesh, Assam, Tamil Nadu Gujarat, Uttar Pradesh and Madhya Pradesh.

Over the years company has diversified its field of activities into other construction segments such as development and construction of roads, highways, bridges and irrigation projects as well as undertaking EPC activities for railways.

Indebtedness of the borrower:

Number of lenders (under CDR) 9 with exposures of Rs 1750 crs (86%)

Number of lenders (non-CDR) 6 with exposures of Rs 275 crs (16%)

Performance and financial Indicators:

(Rs. in crore)

31st March	**2010**	**2011**
Gross sales	1006.55	1249.01
Net Sales	1006.55	1249.01
Interest	53.07	99.03
OPM (%) (OP/NS%)	11.38	11.49
PBT	121.08	151.97
PBT/Net Sales%	12.03	12.17
PAT	90.07	112.17
Cash Accruals	109.28	149.96
PBDIT	187.69	279.22
Interest Coverage ratio (EBITDA/Interest)	3.54	2.82
PUC	14.84	14.84
TNW	331.08	443.25
Adj. TNW	321.37	407.06
TOL/TNW	1.90	2.90
TOL / Adj.TNW	1.96	3.16
Current Ratio	1.30	1.18
NWC	158.02	183.43
ROE%	28.33	27.15

Reasons of CDR:

- **Change in business strategy**

  The company's activities traditionally were in the field of railway infrastructure development. Later on it gave major thrust to Road Construction Contracts as compared to Railways

Construction Contracts. However, it was not prepared for the changeover.

In a Railway Construction Contract, the material is provided by the Client while in a composite Road Construction Contract, material is to be procured by the Contractor.

As a result of this change in the thrust, the Company's order book swelled substantially from Rs. 1525 cr. in FY 2009 to Rs. 3221 crs in FY 2011 necessitating higher working capital for execution of the projects.

However, higher working capital necessitated a higher contribution from promoters in the form of equity. The company / promoters did not have adequate funds for equity contribution. The promoters wanted to run the expanded operations without committing their skin in the game. Heavy reliance was placed on the borrowed funds exposing the Company to higher interest costs, lower profitability and mounting debt repayments obligations.

Though the lenders initially extended need based finance to the Company, the margin from the promoters could not be built in as the cash flow from operations was negative due to huge investments in Current assets despite healthy profitability. The negative operating cash flows was also not backed by matching equity infusion thereby strangling the liquidity position of the Company which caused delays in repayments of debts resulting in downgrade of the Company's rating to D by CRISIL in June 2011.

The lenders were also wary of extending additional finance in the wake of the Ratings Downgrade.

Paucity of working capital funds both from the external as well as internal sources resulted in further delays in execution of the projects compounding the already strangled position of the Company.

- **Over Ambition without meticulous planning**

  Riding high on the past success, the Company procured huge orders without sufficient planning of funds and resources. Downturn in the Infrastructure industry added to the Company's woes which the Company was not geared to sustain.

- **Adverse Business environment**

  Further, there has been an inordinate delay in execution of Contracts beyond the control of the Company due to delays by Government in land acquisition / billing acceptance, non-fulfilment of terms by JV partners, competition from already established players in newer geographies in which the Company ventured along with adaptation to local socio-political environment.

The Company has earned marginal profit of Rs. 2 crore in FY 2013-14. However, the auditors have pointed out thatprofit has been overstated to the extent of Rs. 3018 crore as the interest on ICD has not been provided. Further recoverability of revenue of Rs. 290 crore is not ascertainable.

Observations:

Company was moving on ambitious expansion plan without planning in 2011, at that time bankers should have taken corrective measures and checked on further borrowings. Since the going was good it was ignored.

Case 12

Background:

The company has set up an Integrated Steel Project through DRI-IF-CCM route along with captive power generation facilities in Odisha, with a capacity to manufacture 105000 Metric Ton Per Annum (MTPA) of Sponge Iron, 66667 MTPA of Steel Billets and Captive Power Plant (CPP) of 15 MW capacity (8 MW through waste heat recovery and 7 MW through fluidised based combustion).

Promoters of the company are one of the leading seafood exporters in the country.

Indebtedness of the borrower:

Number of lenders (under CDR): Three (exposures Rs135crs.)

Cut-off date: 31.10.2011

Performance and financial Indicators:

(Rs. in crore)

31st March	**2010**	**2011**	**2012**	**2013**	**2014**
Gross sales	115.83	164.60	139.55	221.84	267.59
Net Sales	108.74	156.13	131.09	198.29	239.09
(Exports)	(23.53)	(85.89)	(62.58)	(75.00)	(80.00)
Interest	13.53	12.78	14.60	13.92	14.25
Operating Profit (OP) after interest**	-8.20	-13.28	-21.14	-12.53	8.77
OPM (%) (OP/NS%)	-7.54	-8.51	-16.13	-6.32	3.67
PBT	-7.63	-14.19	-18.07	-12.26	9.14

PBT/Net Sales%	-7.02	-9.09	-13.78	-6.18	3.82
PAT	-7.63	-14.19	-18.07	-12.26	7.31
Cash Accruals	13.81	4.51	-1.41	1.86	19.21
PBDIT	27.25	17.20	13.19	15.70	35.29
Interest Coverage ratio (EBITDA/Interest)	2.01	1.35	0.90	1.13	2.48
PUC	60.00	60.00	60.00	83.44	83.44
TNW	43.42	33.61	26.35	20.73	28.04
Adj. TNW	43.42	33.61	26.35	20.73	28.04
TOL/TNW	3.18	3.93	4.62	6.53	4.91
TOL / Adj.TNW	3.18	3.93	4.62	6.53	4.91
Current Ratio	0.77	0.59	1.22	1.44	1.68
NWC	-14.98	-31.92	7.86	20.57	35.81
DSCR	1.08	0.93	1.20	1.43	1.34
ROE%	-13.16	-30.64	-49.43	-36.72	17.95

Reasons of CDR:

- **Poor Planning and lack of critical tie ups**

  The Company has not been able to operate at the optimum capacity levels since inception on account of unavailability of critical raw material like iron ore and coal. The average capacity utilization of sponge iron plant (DRI) has been around 40-45%. Consequently the Company's turnover over the years of operation has fallen short of the estimates by 40 to 50% resulting in inadequate cash accruals to service the debt obligations.

- Unavailability of critical raw material also resulted in delay in commencement of production. All the facilities of the Company were initially estimated to be functional by Sep'2006 all the facilities became operational in March'2009.Delay in commencement of operations deprived the Company from extracting good business during the then boom season for Steel Plants in the state of Odisha. The commencement of operations of the Company coincided with the downturn in the Industry and the accounts had to be restructured twice during the period.

- **Changes in the original project**

  The company added to its problems by changing the original project, since this required the Company to make additional capex of Rs. 30.19 crore in FY 2008-09 that resulted in higher fixed costs vis-a-vis the initial estimates.

  Lower capacity utilization resulted in inadequate cash accruals to service the debt obligations with consequent delays and increase in interest costs.

- **Inability of the promoters to bring in their contribution**

  Funding for the deficit was done partly by additional contribution from the promoters and partly from the short term funds resulting in depletion of the net working capital.

- Despite the Company not operating at optimum capacity, it did not incur any cash loss. In FY 2011-12, the situation worsened further with closure of most of the Iron Ore Mines in the state of Odisha which further compounded the problem of unavailability of raw materials and the plant remained non-operational for 3-4 months due to lack of raw materials required for operations.

Though the term loan instalments for June'2011 quarter were paid from fresh infusion of funds by the Promoters, the Sep'2011 quarterly instalment remained in arrears and due to the continuing pressure of inadequate cash generation, the Promoters approached the lenders for restructuring of the account.

Observations:

Company's sales projections were overambitious and non-achievable since beginning. Company delayed commercial production more than 3 years and lost good business opportunities.

Promoters' contribution in lenders sacrifice:

The Promoters have proposed to bring in Rs. 5.00 crore upfront as promoters contribution equal to 20.20% of the sacrifice by CDR Lenders (Rs. 24.75 crore, as against the mandatory infusion of 15% of the sacrifice). This was expected to be used to reduce the term liabilities upfront.

Case 13

Background:

The company was originally incorporated in October, 2003 with the main object of setting up of a steel plant based on sponge iron route. The company has set up an Integrated Steel Project through DRI-IF-CCM route (Direct Reduced Iron in Induction Furnace) along with captive power generation facilities in Odisha with a capacity to manufacture 60,000 Metric Tons Per Annum (MTPA) of Sponge Iron, 72,000 MTPA of Steel Ingots / Billets, 50,000 tons per annum (TPA) steel reinforcing bars (TMT Bars) and Captive Power Plant (CPP) of 10 MW capacity.

From the initial years, the unit suffered from operational difficulties including the promoter's inability to organize proper and adequate supply of raw materials, particularly iron ore which is the main raw material for the unit. As a result the unit suffered from adverse financial position and the erstwhile promoters decided to exit and approached the present promoters to take over the unit.The present promoters (IIT qualified and experienced) took over the company in May 2011.

Indebtedness of the borrower:

Number of lenders (under CDR): Three 3 with exposures of Rs96crs.

Cut-off date: 30.09.2012

Promoters' contribution in lenders sacrifice:

The new Promoters have proposed to bring in Rs. 4.90crs upfront as promoters contribution which is 15% of the sacrifice by CDR Lenders of Rs. 33 cr.

The promoters have already infused Rs.77.69 cr. as unsecured loans (Rs.65.69 cr. as on 31.03.2012 and Rs.12.00 cr. in 2013). Promoters have also leased mines to run the plant.

Performance and financial Indicators:

(Rs. in crore)

	2011	2012	2013	2014
	Aud.	**Aud.**	**Est.**	**Proj.**
Net Sales	51.97	18.09	47.00	113.52
Operating profit after Interest	-28.62	-29.97	-20.77	-11.00
PBT	-28.57	-29.76	-20.37	-10.58
PBT / Net Sales (%)	-54.97%	-164.51%	-43.34%	-9.32%
PAT	-28.57	-29.76	-20.37	-10.58
Cash Accruals	-22.89	-23.18	-13.87	-4.08
PBDIT	-8.90	-12.22	-5.11	5.06
Interest Coverage Ratio	-0.63	-1.11	-0.58	0.55
PUC	18.70	18.70	18.70	18.70
TNW*	35.84	78.11	72.24	65.16
Adj. TNW*	35.84	78.11	72.24	65.16
TOL / TNW*	2.67	1.09	1.21	1.53
TOL / Adj. TNW*	2.67	1.09	1.21	1.53
Total CA	12.03	17.14	24.57	36.39
Current Ratio	0.41	0.55	1.06	1.06
NWC	-17.29	-14.03	1.46	2.05
DSCR			1.26	1.80
ROE	-79.69%	-38.10%	-28.10%	-16.09%

Reasons of CDR:

- **Poor Planning and lack of critical tie ups**

  Since beginning company was facing acute shortage of availability of raw materials as they have not properly tied up the sources.

Observations:

- New promoters have assured availability of raw material. Location of the plant is good.
- Lenders should analysis of availability of raw material. Proper TEV should have been carried out before sanction of loan.

Case 14

Background:

The company is a hospitality and leisure business in India. It started its operations in 2005. It has adopted a mixed business model to diversify across the hospitality and leisure domain. It is in the business of hotels & resorts, club &vacation ownership and education.

Indebtedness of the borrower:

Number of lenders (under CDR): 12(Exposures of Rs478crs.)

Cut-off date: 01.01.2012

Promoters' contribution in lenders sacrifice:

Apart from promoter's contribution of Rs. 4.50 crore, thePromoters were toinfuse/arrangeforequityinvestmentinthe company ofRs. 37.50 crorebyJune 30,2013 and Rs. 37.50 croreby August 31, 2013.Intheevent,theyareunabletodosowithinthestipulatedtimelines,the company wastodivest/monetizeassetsworthRs. 200.00 crore, as per decision of Asset Sale Committee (ASC) constituted under CDR.

Promoters could not infuse their share as per commitment, so ASC is in the process of disposal of some of the assets.

Performance and financial Indicators:

(Rs. in crore)

Financials as on	2009	2010	2011	2012
Gross Sales	54.82	104.68	147.11	132.38
Net Sales	54.82	104.68	147.11	132.38
Interest	7.46	22.89	51.48	60.58
Operating Profit (OP)	11.50	18.69	14.91	-30.57

OP/NS %	20.98	17.85	10.14	-ve
PBT	11.98	18.67	8.88	-36.88
PBT/NS%	21.85	17.84	6.04	-ve
PAT	10.30	17.80	8.45	-36.88
Cash Accruals	16.58	31.72	31.45	-6.94
PBDIT	25.59	55.70	83.05	53.64
Interest Cov. ratio	3.43	2.43	1.61	0.89
PUC	23.05	25.41	25.81	26.06
TNW	164.26	215.7	247.11	215.51
Adj. TNW	164.25	210.04	238.95	205.19
TOL/TNW	1.75	1.90	2.10	2.55
TOL/Adj TNW	1.75	1.95	2.17	2.68
Current Ratio	0.68	0.41	0.60	0.66
NWC	-17.11	-70.62	-61.04	-54.05
ROCE%	5.12	8.34	10.31	6.66

Reasons of CDR:

- **Overambitious Expansion Plan:**
  The group comprises of 13 companies including the present case. Out of these, 11 are associate companies and one is 100% subsidiary company. Out of the 11 associates, 5 companies have turnover of less than Rs 3.00 cr. All the group companies are diversified in to various businesses and are incurring loss(almost non-operational)except one.
- The company hadtakenonhighleveragetocompletemultipleprojectsintheyear2008to2010.Ithasgoneonanaggressive expansion plan in construction of multiple hotels

inGujaratandRajasthan.Thishasledtohighleverageonthebalancesheetofthecompany,withoutadequaterevenuesourcestoaugmentthepaymentobligations.

- The company had one tie up with thevacationownership/timesharemarketunderitsbrandinApril2008. TheTimeshareownershipoffersthepurchasertoownanduseoneweekacrossthepropertiesof the company. Discontinuation of time share business which contributed up to 60% to 75 % of the operating margin impacted negatively.Timesharebusinessdoesnotrequiredanymajorexpenditureapartfromexpensesrelatedtomarketingandroomupkeep.

Observations:

Unplanned expansion and dependence of revenue on one tie up is the reason for the company's problems. Lenders should have examined these aspects. The company has suffered loss on account of massive capex and venturing into various parts of the country. There is only one resort where it made good profits otherwise in all other resorts it is incurring loss.

Case 15

Background:

The company was established in December 1999 with the objective of processing of textiles and export of bed sheets and textile made-ups. The group companies are in this line of activity for more than 25 years. Initially, the group started export business. Over the period, the group consolidated the operations through backward integration by setting up fabric-processing unit. Thereafter, the group corporatized the operations, by converting the unit into a private limited company and later to a public limited company in the year 2006.

The company is currently engaged in processing of fabrics and manufacturing of textile made ups. It has manufacturing facilities for bleaching, dyeing, printing and stitching at Ahmedabad. The unit has a capacity to produce 140.00 million meters of fabrics per annum (77.00 million meters of wider width fabric and 63.00 million meters of narrow width fabric). The company has an established client network in the domestic market as well as in international market such as Russia, New Zealand, USA, Canada and Europe.

The performance of the company was satisfactory till 2010-11. However, the company suffered a setback in 2011-12 due to various reasons including subdued market, wide fluctuation in cotton prices, blocked receivables, increase in working capital cycle of the company on account of launching of its premium brand clubbed with non-erection of effluent treatment plant on time which led to restructuring of their account by all consortium banks outside CDR in March 2012.

The first restructuring granted moratorium in servicing of debts till end of November 2012. This was based on the assumptions of commissioning of Effluent Treatment Plant by August 2012.

The first restructuring was not successful on account of the following reasons:

- Non-erection of Effluent Treatment Plant (ETP) there by resulting in low capacity utilization
- Continued subdued market condition
- Receivables taking longer time for realization as against estimated Non-achievement of estimated profits

Second Restructuring (CDR):

Number of lenders (under CDR):10(Exposure Rs360crs.)

Non CDR lender: 1 (Exposure Rs 12.50 cr.)

Performance and financial Indicators:

(Rs. in crore)

As on 31/03/	2012	2013	2014	2015
Gross Sales (Value)	1682.25	950.25	577.80	724.87
Net Sales (Value)	1682.25	950.25	577.80	724.87
Interest	145.01	145.10	127.49	141.73
Operating Profit (OP)	-122.45	-169.65	-132.77	-106.05
OPM% (OP/NS %)	-7.28%	-17.85%	-22.98%	-14.63%
PBT	-114.42	-156.33	-134.95	-75.08
PBT/Net Sales %	-6.80	-16.45	-23.36	-10.36

PAT	-76.31	-112.63	-134.95	-75.08
Cash Accruals	-68.98	-104.37	-126.88	-65.89
PBDIT	37.92	-2.99	0.61	75.84
Interest Coverage	0.26	-0.02	0.00	0.54
PUC	40.37	48.44	82.09	90.50
TNW	252.08	95.85	-5.45	-72.12
Adj. TNW	251.62	95.40	-5.90	-72.57
TOL/TNW	4.58	13.34	-260.58	-21.40
TOL/Adj TNW	4.59	13.41	-241.71	-21.27
Current Ratio	1.30	0.92	1.49	1.55
NWC	215.08	-59.02	197.62	227.67

Reasons of CDR:

Unavailability of Effluent Treatment Facility:

In order to meet the guidelines of State Pollution Control Board and continuing the business at higher capacity, the company is required to set up ETP Plant of 5MLD. Although a loan for erecting the FTP was sanctioned, it was not erected.

High receivables and high debtors' level:

The delay in realization of debtors and increase in debtors > 120 days has affected the liquidity position of the company. Though these debtors are considered good for recovery, the same is expected to be realized gradually over a period of time. Therefore, the company is not in position to pay the current dues.

<u>Continued global recession</u>:

FY12 witnessed a downturn in textile market. The impact of this downturn had affected the top line and shrunk margin of many textile companies across the country. The overall global market scenario further deteriorated in FY13 and the downturn is also expected to continue in near future.

- Company and the group is facing acute shortage of cash and not able to put enough money in business resulting in dwindling volumes. Also due to the aforesaid reasons the company is not in a position to service the principal and interest repayments and it is therefore requested for a long term viable solution through CDR mechanism.

Observations:

The Company is presently operating at reduced capacity utilization (55% - 60%) due to its inability to meet state pollution control board discharge norms. This is surprising to note that expansion was carried out without erecting the FTP.

Case 16

Background:

The venture started as a Proprietorship concern in the year 1963. Subsequently, during 1985, the firm was converted into a Private Limited company and in March, 1995 it became a Public Limited Company. Now the company's shares are listed on Bombay Stock Exchange (BSE). The company is involved in the following activities:

- Engineering Procurement and Construction (EPC) contractors focused on the Hydrocarbons, water and infrastructure sectors. The company has over 1400 employees.
- Providing EPC services ranging from Oil & Gas, pipelines, civil infrastructure, Thermal power plant, revamping/refurbishing etc.
- Providing end-to-end EPC solutions/services in laying pipelines in oil and gas and drinking water projects. Its expertise includes laying oil and gas pipelines and setting up storage tanks, civil infrastructure, revamping/ refurbishing/maintenance, asset preservation and maintenance, etc.

The company is having 9 group companies.

Indebtedness of the borrower:

Number of lenders (under CDR): 10 (Exposure Rs 360 cr.)

Non CDR lender: 1 (Exposure Rs 12.50 cr.)

Promoters' contribution in lenders sacrifice:

Promoters' contribution Rs. 25.00 crore has been infused as unsecured loan.

Performance and financial Indicators:

(Rs. in crore)

As on 31st March	2012	2013	2014
Net Sales/ Income	521.56	303.48	301.72
Profit Before tax	36.69	-61.36	-27.24
PBT/ Sales (%)	7.04%	-ve	(-ve)
Profit After Tax	35.93	-61.36	-27.24
Cash Accruals	43.59	-33.43	-16.00
PBDIT	102.12	8.78	35.71
Paid Up Capital	9.76	9.76	9.76
TNW	159.19	91.43	68.00
Adjusted TNW	137.99	76.18	52.73
TOL/TNW (times)	5.37	8.80	10.77
TOL/ Adjusted TNW	6.04	10.60	13.98
Current Ratio	0.91	0.69	1.26
NWC	-12.92	-154.77	91.79
DSCR	1.94	--	--
ROCE (%)		0.99	4.56

Reasons of CDR:

- **Stretched Receivables:**The company receivables are stretched.The receivables of Rs 423.50 crore as on 31.03.2012 is outstanding against the net sales of Rs 527.49 crore during 2011-12, which shows poor receivables collection. Further, the company has opined that about Rs 43.16 crore of receivables are unrecoverable. It resulted in mismatch in cash flow, which led to irregularity in the accounts.

- **Inability to infuse equity:** During 2011-12, the company had estimated to infuse fresh equity of Rs 50.74 crore through private equity. However, said equity infusion is not materialized, resulting stressed on liquidity.
- **Capital Expenditure**: During 2011-12, the company has incurred about Rs 105.00 crore towards CAPEX which includes about Rs 72.00 crore towards solar power project. The Solar Power project of Rs 72.00 crore was funded from Term Loan (ECB) of Rs 56.00 and Rs 16.00 crore from the internal accruals, which impacted on the liquidity of the company.

Observations:

Company's total sale in 2012 was 527 cr. of which 80% collection was pending. However, the promoters went on for capex of Rs. 72 crore for solar power plant. This is a case of expansion without meticulous planning. Top of it term loan of Rs 74 cr. for capex was also sanctioned, that deteriorated the liquidity condition of the company.

Case 17

Background:

It is a flagship Company (Company A) of a group. The company was promoted in the year 1990 with the main objective of manufacturing of various steel products. Company is engaged in manufacturing of stainless steel products such as Hot Rolled Sheets, Coils, Plates, Flats, Slabs, Billets, Bars, Rounds Beams, Angles, Wire Rods as well as Cold Rolled Coils/Sheets with a capacity of 2.60 Lac MTPA. The company aspired tobecome the 2nd largest stainless steel producer in the country with a market share of over 20% through systematic execution of various expansion plans. The company is one of the leading manufactures of 200 series stainless steel in India.

During the year 2003, another company (B) was promoted to implement the backward integration project for manufacture of Sponge Iron, Ferro Alloys, MS/SS Rolled products along with 40 MW Captive Power Plant at a cost of Rs.203.00 crore. The new company secured sales tax benefit for first seven years and excise duty benefit for first five years from the date of commencing commercial production. Sponge iron and Ferro alloys produced by this company are being consumed by company (A) resulting in reduction in cost of inputs.

<u>First restructuring under CDR in Jan'08:</u>

- Sharp price fluctuations in RM prices, continuous increase in furnace oil prices, depreciation of US dollar and dampening sentiments in steel market in the first quarter of 2007-08, adversely impacted the fortunes of the company and it recorded huge losses during 2007-08. In 2007 LCs worth Rs. 200 cr. had devolved, of which LCs aggregating Rs. 18.45 cr. were established in favour of a group company under same promoter.

- In view of it precarious financial position, caused by various above mentioned internal and external reasons, a restructuring package was sanctioned by the CDR EG in January 2008.

Second restructuring under CDR in June'09:

- While approving the restructuring in Jan'08 it was assumed that the company would be sanctioned need based WC limits by the WC lenders for optimum level of capacity utilization.

- Due to delay in release of need based WC limits by consortium members; the company could not operate as envisaged in the first restructuring. Moreover, the adverse impact of meltdown in steel industry during the second half of 2008-09 further aggravated the situation.
- As a result company's position deteriorated substantially and it posted losses of Rs. 105.38 crore during FY 2009.
- The company submitted that since the need based WC limits was not made available in time, it was operating at below BEP level and this has resulted in non-generation of adequate surplus to meet the repayment obligations as per first CDR.
- In view of above a reworked restructuring package was approved by the CDR-EG in June'09.

Present status and adverse features:

- The sanctioned limit was made available to the company by end of July 2009. However, the financial position of the company did not improve and deteriorated further. The accounts of the company was running irregular in April – 2010 and devolvement of LCs started in 2010. As a result the company's account turned by end of 2010.

- Meanwhile the company has filed an application with BIFR to register as sick company as its net worth has been completely eroded. The BIFR has declared the company as sick in hearing held in August 2010.

Reasons of CDR:

- Due to suppressed market conditions, the company could operate at 40-45% capacity utilization which is below the BEP level. This has resulted in huge loss.
- Crash in international market prices of steel

Observations:

Suppressed market conditions coupled with crash in international market prices of steel forced the company to CDR. Lower capacity utilization has resulted in huge loss to the company.

Case 18

Background:

The Company was incorporated to set up a modern vitrified tile manufacturing plant. The company has set up a manufacturing plant for vitrified tiles, with two lines, at an estimated cost of Rs. 175 crore with technical support from SACMI, Italy considered to be a world leader in ceramic technology.

Company had undertaken expansion projects for manufacture of sanitaryware &artificial marble tiles (Calcareous) during the year 2006-07. As per the original project implementation schedule commercial production in calcareous tiles division and sanitary ware division was to start in the month of July 2007 and October 2007 respectively. However, the production in both the divisions could stabilize only in the last quarter of FY 2008-09 as being a new product, technology absorption and manufacturing product with desired quality involved significant R&D efforts over 12-15 months.

- Despite problems in first line of calcareous division the promoters undertook the expansion plan (Project Cost Rs.120 cr. approx.) to set up second line of calcareous tiles by availing finance (Rs.85 crore) from ICICI Bank during July 2008.

- The company also purchased a second hand Wall Tile Plant at a cost of Rs.8.00 crore in Sep, 2008 which has been commissioned on May 2011 after considerable delay. The total investment in this line was around Rs 30 crore.

Exposure to the Banks:

Number of lenders (under CDR): 5 (Exposures Rs 401crs.)

2 lenders under non-CDR with exposure Rs 51 crs

Performance and financial Indicators:

(Rs. in crore)

	Last two years actual			Current year	Next year
	Audited -10	Audited-11 (Estimate)	Audited -11	Estimates-2012	Projections-2013
Net Sales (Value)	203.14 (218.00)	239.94 (237.00)	239.94	261.30	305.30
(Exports)	23.89 (17.00)	23.87 (25.00)	23.87	27.00	30.00
Operating profit	2.65 (18.21)	-11.79 (10.84)	-11.79	29.10	19.40
PBT	-41.44 (24.08)	31.65 (-36.05)	-67.75	-16.70	-25.70
PBT / Net Sales	-ve (-ve)	13.19 (-ve)	-ve	-6.39	-8.42
PAT	-41.44 (24.08)	31.65 (-36.05)	-67.75	-16.70	-25.70
Cash Accruals	-18.56 (3.30)	60.20 (-10.05)	-39.20	21.30	12.80
PBDIT	27.53 (50.59)	117.75 (37.95)	18.35	68.40	65.30
PUC	17.10 (37.10)	17.10 (17.10)	17.10	26.42	26.42
TNW	146.95 (184.32)	192.89 (110.90)	79.20	172.39	191.69

Adj. TNW	144.03 (181.40)	190.16 (107.90)	76.47	169.66	188.96
TOL/TNW	3.88 (2.81)	2.96 (5.03)	7.66	3.35	2.82
TOL / Adj.TNW	3.95 (2.86)	3.01 (5.17)	7.94	3.40	2.86
Total CA	188.46 (184.90)	178.75 (177.83)	--	205.28	220.83
Current Ratio	0.93 (1.28)	0.89 (0.86)	--	0.94	1.12
NWC	-14.67 (40.42)	-21.96 (-30.07)	--	-13.72	23.51

Reasons of CDR:

- **Delay in stabilization** of calcareous and sanitary ware division resulting in poor revenue generation. Being a new product, technology absorption and manufacturing product with desired quality involved significant R&D efforts over 12-15 months.
- Poor capacity utilization due to lack of sound marketing vision and strategy for newly launched products of calcareous tiles and sanitary ware.
- Higher level of inventory (mainly pile up of sanitary ware products) due to competition.
- Stretching of the receivables beyond the normal period to meet the competitionand penetrate the market.
- Huge debt (including unsecured loans) and interest burden both for ongoing project as also for new projects like resin plant and wall tiles plant. The unit undertook expansion without tying up the long term sources. Cost and time over run in the existing

expansion plans were also financed out of short term loans raised by the company.

- Going in for second line of calcareous tiles without first one getting stabilized.

Observations:

- The company was not able to raise long term funds and was managing the affairs by rotating unsecured loans. As operations were not generating cash the repayments were being financed out of working capital funds. Hence, the company faced severe liquidity problem and it became difficult to run the operations. The company was not in a position to service the interest and installments falling due.
- Unplanned expansion without proper TEV study and lenders also supported for it.

Case 19

Background:

The company is engaged in the textile business of manufacturing cotton spun yarn, doubled yarn, open ended yarn, knitted grey fabrics, processed knitted fabrics and Garments.

The company belongs to a famous groupwhich was established in 1975 and had been in the business of manufacture and sale of cotton yarn, fabric and garments. Over a period the group has grown many folds with turnover touchingRs. 7500 cr. in March 2011. The group is involved in textiles & real estate with textiles forming substantial portion of the group's turnover.

The group also controlled Bank of Rajasthan (BOR) before BOR was acquired by ICICI Bank. The Group was having various listed and unlisted companies. Today Group is one of the largest players in integrated cotton textile mills in India which produces quality cotton fabrics and garments catering to clients across the country and also globally.

Indebtedness of the borrower:

15 lenders with exposures under CDR of Rs790crs.

Cut-off date: 01.01.2012

Promoters' contribution in lenders sacrifice:

The sacrifice on account of the proposed restructuring scheme works out to around Rs 79.72 Cr. and promoters have infused their share upfront.

Performance and financial Indicators:

(Rs. in crore)

Particular	FY09	FY10	FY11	FY12 (H1)	FY12 (Q3)
Sales	1,837.8	2,069.1	2,307.5	1,388.2	637.1
EBIDTA	164.4	159.0	213.3	134.1	25.9
% EBIDTA	8.9%	7.7%	9.2%	9.6%	4.1%
Rebate on past sales					33.76
Interest	74.9	76.9	90.4	66.1	31.8
PBT	33.9	5.3	0.3	3.2	(72.2)

Reasons of CDR:

- Despite industry downturn in FY12 (H1), company could generate reasonable profitability as it had pushed sales to long term customers at pre-contracted prices despite prevalent market price being lower than pre-contracted prices.However some of these customers sought discounts on the sales made to them. Hence some discounts were allowed on previous sales. The rebate given in Q3 of 2012 for past sales was Rs 34 Cr. As a result the company suffered PBT loss of Rs 72 Cr. during FY12 (Q3).

- Despite CAGR of 18% in sales growth during the period FY09 – FY12 (H1), the company recorded drop in its bottom line by from Rs. 34 Cr in FY09 to Rs. 0.3 Cr in FY11 translating into drop of 99%. The lower profits compared to sales growth was on account on increase in raw materials price without commensurate increase in sales realization. Besides this, the other cost overheads like power costs and labor costs also increased substantially during the same period thus resulting in lower margin compared to sales.

- The optimal capacity utilization of the unit is estimated to be around 90% subject to availability of adequate working capital. However in view of inadequate working capital, the company is unable to run the plants at optimal capacity.

- Interest & finance charges have increased over the past years due to increase in debt funds primarily to finance capex project and also due to significant increase in interest rates vis-à-vis those envisaged at the time of project appraisal.

- Being a working capital intensive industry, sufficient working capital is critical for sustained profitability of any textile unit. Accordingly the working capital limits of KKTL were assessed in FY2011 for total WC limits of Rs 685 cr. but banks have not released the entire assessed limits with the untied WC gap being Rs 173 Cr. On account of inadequate WC, the company has not been able to ramp up the operations resulting in lower sales.

- The company had undertaken capacity expansion projects recently. The increased capacity on account of the aforesaid capex projects necessitates higher WC requirement.

Observations:

- Despite good profit and cash flow, company faced the problem of unplanned capex and not able to read the market properly.

- The price of textile products has fallen drastically in 2012, but company showed higher profit because of earlier contracted sale prices with buyers. Later on they asked for discount which impacted the profitability of the company.
- Company was having funds of more than Rs 240 cr. which it invested in capex and banks did not provide term loan to complete the project.
- Had company studied market properly, it would not have invested in the capex; instead these funds would have been used for working capital.
- Over ambitious expansion without proper market study and not timely support by banks leads the company to CDR.

Case 20

Background:

The company was incorporated in the year 2005 on amalgamation of the then existing 3 business entities engaged in the same line of activity of the same management as a part of the consolidation move. Promoters of the company are well experienced in the line of activity.

The company is engaged in manufacture of variants of multi-layered and functional films, which find major application in primary as well secondary packaging solutions in food, dairy and pharmaceutical segments. The company is capable of producing multilayer cast and blown barrier films of international accepted standards. At present, company has 6 independent production centres, 5 of them are located in the union territory of Daman and the sixth one is in Rudrapur, Uttaranchal, enjoying tax concessions.

The company has a well-established distribution network of dealers. The company has a large clientele base of more than 400 clients. Major clients of the company are Reliance, Vasudhara dairy, Anchor Electrical, Welspun, Micro Inks, Mother Dairy, Gujarat Co-op Milk Marketing Fed. Ltd (Amul), Tata tea, ,Dabur, Cipla, Pfizer, Pilsbury, Britania etc.

Indebtedness of the borrower:

2 lenders with exposures under CDR of Rs 185 crs.

Cut-off date: 01.01.2010

Promoters' contribution in lenders sacrifice:

The sacrifice on account of the proposed restructuring scheme works out to around Rs 17.54 Cr. and promoters have already invested Rs 13 crs in April 2010 which was treated as their share.

Performance and financial Indicators:

(Rs. in crore)

Particulars	31.03.2008	31.03.2009	31.03.2010	31.03.2011	30.06.2012
	Aud.	Aud.	Aud.	Aud	Aud
Net Sales	141.34	161.38 (166.07)	152.82 (326.20)	105.22	109.54
(Export Sales)	(4.25)	(5.39)	(5.82)	5.99	--
Operating Profit	20.61	0.34 (1.00)	-41.03 (11.25)		
Profit Before tax	21.20	0.81 (1.00)	-47.66 (11.75)	-53.67	-49.94
PBT/ Sales (%)	15.00	0.50 (0.60)	-31.19 (3.60)	-51.01	-45.59
Profit After Tax	14.10	0.46 (0.65)	-47.94 (7.87)	-53.78	-47.96
Cash Accruals	17.88	9.02 (8.89)	-34.77 (24.35)	-40.008	-34.09
PBDIT	30.16	21.71 (20.91)	-14.13 (46.65)	-18.23	-6.22
Paid Up Capital	24.49	32.54 (32.54)	32.54 (37.54)	32.54	32.54
TNW	152.87	153.02 (164.09)	107.93 (181.43)	83.56	29.58
Adjusted TNW	152.62	149.76 (161.59)	107.67 (178.17)	76.44	21.72
TOL/TNW (times)	0.68	1.32 (1.03)	2.11 (1.05)	2.84	10.59
TOL/ Adjusted TNW	0.68	1.35 (1.05)	2.11 (1.07)	3.10	14.42
Total Current Assets	109.18	137.69 (116.48)	110.38 (172.86)		

NWC	52.50	23.07 (15.02)	-3.09 (42.50)	-11.72	-41.65
Current Ratio	1.93	1.20 (1.15)	0.97 (1.33)	0.90	0.75

Reasons of CDR:

- The company has been incurring losses since more than 3 years on account of lower capacity utilization and its inability to reach out and expand market share. Present capacity utilization is below 15%.
- The company has failed to achieve the projections made. Moreover, its inability to recover stretched receivables and manage slow /nonmoving inventory.
- Because of delay in installations etc. the project faced cost & time overrun. The term loan was therefore, rephased by the consortium in August 2009 by extending the loan tenor by three quarters.

Observations:

- Inspite of offering various concessions the Company could not revive and both performance and financials were way below estimates. The Company could not meet their repayment obligations and interest obligations even with the concessionary rate and low quantum of term loan installments. The lenders then commissioned a TEV study and came to the conclusion that revival of the unit was not possible unless there is sufficient infusion of fresh funds by the promoters.

Case 21

Background:

The company incorporated in December 1993, was jointly promoted by two groups. Initially company manufactured Oriented Polyester Yarn (POY). The company started with an initial POY capacity of 11977 TPA and had been embarking on a staggered expansion in capacities over the years. The company also completed a backward integration programme for manufacture of polyester chips with a capacity of 49000 MT.

Although the Company has a competent Board of Directors who have sufficient exposure to the man-made fibre industry, since the two groups have setup their independent ventures and are engaged in the same line of activity, the performance and operational efficiency of this company has been affected due to differences amongst the two promoter groups, which has been persistent for close to 4-5 years now.

The consortium Banks have been pressing upon the promoters to resolve these issues and after persistent follow up, the promoters agreed for division of the assets of the Company into two different Companies, to be managed by the two Groups independently.

The detailed restructuring plan involving Demerger of the Company into two separate entities (each to be controlled by one of the original promoters) has become effective from 01/04/2007 and after obtaining approval of the secured and unsecured creditors as well as the shareholders, the Company approached High Court of Gujarat for sanction of Scheme of Demerger which was approved.

The company approached for restructuring through CDR mechanism. The TEV report has brought out that both the units are technically viable and economically feasible.The restructuring package was approved in 2007.

Indebtedness of the borrower:

4 lenders are under CDR

Promoters' contribution in lenders sacrifice:

The Promoters have brought in their contribution of Rs. 10 Crore as envisaged in the earlier package for the parent company. Additionally, the promoters are ready to bring in about Rs. 6 crs. in stages. (which entity)

Performance and financial Indicators:

(Rs. in crore)

Period ended	**II year (2006-07)**	**III year (2005-06)**
Net sales	26754	48809.11
Gross profit/(loss) (oper.)	9016.58	12038.21
Interest/lease rent	1923.14	1972.54
Depreciation	2150.91	2475.28
Operating profit/(loss)	-2762.41	-483.08
Non-oper. Income/(loss)	122.38	138.26
Adjustments	-139.78	-25.94
Tax	-986.92	178.06
Net profit/(loss)	-1792.89	-548.82

PBILDT/Net Sales (%)	5.16%	8.41%
PAT/Net Sales (%)	-ve	-ve

Reasons of CDR:

- The differences amongst the two promoter groups have been affecting the performance of the company as revealed by the financial results of the years 2005, 2006, 2007 and 2008.
- The company has been incurring losses for the last four years and has been recording less than anticipated cash accruals, which has been impairing its ability to service the term debt.
- The Working Capital of the Company has been eroded over the last two years on account of the low profitability of the operations arising out of low capacity utilization and utilization of short term sources towards repayment of term obligations during the years 2005-06 and 2006-07.

Observations:

Although two groups came together and formed the company but they were having separate units in the similar line so the company could not turn successful venture despite best synergy. After split one company has turned successful (right of recompense not yet paid) and another applied for OTS.

Case 22

Background:

The Company was incorporated in 1993 for manufacturing bulk drugs. The company is having a total exposure of 2783.31 Cr from the banking systems.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2011	March, 2012	March,2013
Net Sales	1321	1530	1881.47
PAT	83.34	101.13	-161.30
TNW	628.47	710.78	711.98
Current Ratio	1.35	1.21	1.03
ROE		15.43	0.15

Reasons for CDR:

Company approached CDR in 2013 citing following reasons:

a. Company was facing several operational constraints
b. Quality of receivables had deteriorated.
c. Lower operational margin due to increased competition in the pharmaceutical market.
d. Mounting receivables, amounting 962 Cr, out of which Rs.532.67 Cr were more than six months.

Observations:

The company has been delisted from the stock exchanges and has not submitted any financial results and annual reports to the BSE.

Post CDR minority banks approached high court and obtained stay on pledging of 100% shareholding and sharing of security. Further a winding up petition has been filed by UBI. Total of 72 cases involving

Rs.282.67 Crs are pending against the company under section 138 of N.I. Act.

Borrower had made a huge deposit of more than Rs.180 Cr with supplier and intermediaries.

The working capital limits sanctioned are equal to projected sales.

Case 23

Background:

The Company was incorporated in 1964. The company is engaged in manufacturing energy efficient products like carbon film resistors, capacitors, ceramic cores, wire wound resister and instruments, ceramic capacitors, trimmers, potentiometers, instruments, etc. The company has one subsidiary and two joint venture companies engaged into the manufacturing of similar products.

Company had secured loan of 163 Cr. from the banking system.

Key financials:

(Rs. in crore)

Accounting year ending	March, 2009	March, 2010	March,2011	March, 2012
Net Sales	211.74	222.34	144.11	82.83
Interest	31.66	31.66	24.72	20.60
OP after interest	9.94	3.60	-74.87	-119.70
PAT	-5.81	2.94	-79.26	-123.57
TNW	217.56	230.57	162.60	40.08
Current Ratio	1.31	0.93	2.68	1.56
ROE	6.95	10.53	-14.03	-45.36

Reasons for CDR:

a. The company suffered huge loss due to diversification non-core sectors.
b. The Company has been facing scarcity of working capital for quite some time.
c. The recession in the economy has adversely affected the operations of the company.
d. The company has been facing problem in realization of its dues.

Observations:

The company had made advances of Rs.40.00 Cr to suppliers out of which Rs.10.00 Cr was considered doubtful.

The company had transferred two key businesses to its 100% subsidiaries which has adversely affected the business.

One of the lenders objected that they were not agreeable to the transfer of the businesses of the two divisions to the two 100% subsidiaries and had declined approval. Besides, the Lead bank of the Consortium for Working Capital has informed the Company not to proceed with hiving-off of assets without the written consent of the Consortium Banks.

Some of the member banks had already served notices under SARFAESI Act for recovery of its dues.

Company had sought the approval from CDR for hiving off the business to its subsidiaries.

Post approval of CDR, the company's accounts were declared NPA from the back date and recovery proceedings have been initiated.

The company was declared wilful defaulter on account of:

a. Unauthorized current accounts with non-member banks
b. Diversion of sale proceeds to subsidiaries.
c. LCs devolved was not regularized.

Case 24

Background:

VIL, a global conglomerate with business interests that include steel ware and steel raw materials, oil and natural gas, wind energy, diamonds and agro products, was established in the year 1989.

Financials of the Company:

(Rs. In crore)

Year	Sales	Net Profit	TNW	TOL/TNW
2011	2925.24	39.35	236.00	7.28
2012	3179.57	(-) 157.79	78.21	24.52
2013	168.02	(-) 34.47	Not Available	

Reasons for CDR:

Company's significant portion of exports to Dubai was meant for re-exports to various markets of Middle East, Iran and Africa. Most of the world trading partners of Iran preferred to deal with established banking system of UAE for trade with Iran. However, with the depreciation of Iranian currency almost by 50 % against dollar, the company's customers in UAE have suffered huge losses resulting in their inability to make payments.

Company gave a discount of Rs. 160.61 crore to its export debtors and as a result; they started facing liquidity crunch during last quarter of 2011-12. They failed to pay the interest for the subsequent months.

The company made a reference to CDR Cell in March 2012. The TEV found the restructuring scheme as financially viable and a fair banking risk.

Subsequent Developments:

CDR was approved in December 2012 (with sacrifice of Rs. 140.75 crore and promoter's contribution of Rs. 35.25 crore by way of equity / preference shares / unsecured loans) and implemented on 30.03.2013.

However, the CDR package failed, as the company did not bring in the critical amount as required under the package, within the stipulated time.

Following developments took place after failure of CDR:

i) Account turned NPA in July
ii) SARFAESI notice issued by Lead Bank in September 2013
iii) OA for filing of suit under DRT signed by all the member banks
iv) Suit filed in DRT
v) Lead Bank has taken symbolic possession of collateral securities (except one plant) in October 2013

Observations:

The company as well as banks failed to assess the risk involved in trade with Iran and take timely action.

CDR failed as promoters could not bring in their share of money to fund the revival scheme.

Case 25

Background:

ACL, engaged in construction and cotton textile activities was incorporated in the year 1993. In the year 2005, the company planned forward integration. An IPO to part finance it was planned for March 2006 which was delayed to March 2007. The delivery of machinery was also delayed. The company was able to conclude financial closure by July 2007. However, it was followed up by global recession and the company could not tie up with any export customers, thereby, leading to operations at low capacity utilization and inability to cover fixed costs. This affected their financial performance.

Financials of the Company:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	TOL/TNW	Current Ratio
2008	68.93	5.31	114.44	1.84	1.86
2009	23.78	(-) 12.78	102.28	2.97	1.28
2010	39.85	(-) 32.45	75.56	3.79	1.47
2011	49.59	(-) 69.84	6.41		1.37

Reasons for CDR:

As a result of deteriorating financials, a reference was made to CDR Cell in June 2010. TEV study was conducted by Bombay Textile Research Association, Mumbai (BTRA) who concluded that the operations of the company, based on their studies, were technically and economically viable under normal conditions provided adequate working capital were made available.

CDR was approved in January 2011, with sacrifice amount of Rs. 40.70 crore and the promoter's contribution of Rs. 7.5 crore.

The CDR was implemented in July 2011. Repayment of the loan was deferred.

Reasons for CDR Failure:

The promoters failed to infuse upfront funds of Rs. 4.50 crore envisaged in the package. Further, the company failed to achieve the projected income / profits during F.Y. 2010-11. The promoters were required to fund the gap between estimated and actual cash losses to take the sanctioned package further. They also failed to bring in this fund to bridge this gap.

Consequently the package was treated as failed and a decision was taken to initiate recovery action under SARFAESI Act and to proceed against the company and the promoters / guarantors in DRT also.

Observations

The package failed due to inability of promoters to bring in their contribution. It would be better if the source of funds is properly ascertained before approval of the package. This will also deter the promoters to submit unrealistic projections and pave the way for timely action by the creditors.

Case 26

Background:

PAL, engaged in manufacturing of Aluminium Foil Containers was incorporated on 01.09.1994.

Financials of the Company:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj. TNW	TOL/TNW	Current Ratio
2010	637.46	46.29	306.34			
2011	902.35	67.25	367.74	367.74	1.69	2.30
2012	1369.75	84.66	446.10	446.10	2.53	1.16

Reasons for CDR and its failure:

The company had substantial outstanding receivables thereby causing mismatch in cash flows. Company was unable to service payment of interest and instalments to banks. This was followed by sudden demise of company's promoter who ran the company single handedly and dealt with most of the key functions personally. His demise created a vacuum in the company.

TEV study was carried out by D & B who concluded that the compressive restructuring scheme would address the long term profitability. However, the TEV study presumed capacity utilization at 90%.

The package was approved in June 2013 with a sacrifice amount of Rs. 108.83 crore.

While implementation of the package was in progress, it was revealed that two pension funds, which have invested in NCDs and holding first pari -passu charge on the fixed assets of the company, are not participating in CDR package. Their consent is essential for perfection of the securities stipulated in the package. MI received notice for winding up from the legal counsel of the pension funds.

Observations:

Monetization of assets was part of the CDR package. Implementation of the package faced problem as some of the assets to be sold were charged to / held by the institutions who did not participate in the package. This aspect should have been looked into while finalizing the CDR package.

Case 27

Background:

The company, engaged in the manufacturing of power and control cables was incorporated in fifties. Power Cable industry had faced severe demand recession since the mid-1990s. This had adversely affected performance of all major power cables units in the industry – including company. The company had been incurring operating losses since 1997-98, mainly due to increase in the cost of key raw materials and power capacity utilization leading to erosion of working capital, net worth which consequently resulted in default in servicing its secured and unsecured creditors.

Financials of the Company:

(Rs. in crore)

Year 31.03	**Sales**	**Net Profit**	**TNW**	**Adj. TNW**	**TOL/TNW**	**Current Ratio**
2008	109.25	(-) 1.85	16.59	16.59	11.77	0.52
2009	94.10	(-) 32.42	90.89	33.55	2.26	0.67
2010	128.79	(-) 32.36	33.59	(-) 23.76	8.88	0.70
2011	184.68	15.73			3.30	0.81
2012	158.75	(-) 19.87	67.90	10.55	4.43	0.79
2013	123.36	18.18	86.08	28.73	2.20	0.67
2014 (Prov.)	137.83	(-) 21.53	64.55	48.55	2.71	0.57

Reasons for CDR:

1st Restructuring:

The company's debts were restructured under CDR during 2004 and package implemented in March 2005. However, the company continued to incur losses in spite of the restructuring, although it settled the dues of two lenders from sale proceeds of part of their land.

2nd Restructuring:

Due to continued slow-down in economy and operations of plants running below break-even, the company continued to suffer losses and their accounts with all the members of consortium rendered irregular since mid-2008. Accordingly, the company requested for another restructuring of its credit facilities.

A fresh TEV study was carried out to establish viability of the company. The TEV consultant observed that the company's operations will be viable if the company is able to shift part of its operations to another city. TEV study also recommended company concentrate on a niche product. This would offer a good opportunity to the company to consolidate its position in that particular product.

The company's request for second restructuring would have been treated as repeated restructuring in terms of earlier guidelines issued by RBI, since this would have been done within a period of 5 years from the first restructuring. However, in terms of the RBI guidelines issued on 08.12.2008, a second restructuring even within a short period was permitted in 2009, in view of the then difficult market conditions and general slow-down in most sectors of the economy.

Observations:

The company has been under CDR since 2005 and it had to come out of CDR, latest by October 2013. TL/WCDL has been repaid by selling of few properties mortgaged to Banks for Term Loans.

Recompense amount is yet to be paid.

The account remained standard till March 2014. However, due to delay in realization of receivable from one power Distribution Company, cash flow was strained rendering the accounts irregular. This resulted in company's account becoming NPA again recently. Joint Lenders Forum meeting held in May 2014 decided that individual banks would immediately seek permission from their respective authority for calling up loan and to initiate legal action / SARFAESI if the account does not get regularized. The accounts were regularized in May 2014.

Observations:

This is a case of repeated restructuring without inherent viability of the enterprise. The company's operation are not viable, however, it has huge land assets that are being sold every time the over dues arise. However, there is a limit to cash generation from sale of assets. An early decision on the fate of the unit based on viability would be a better option.

Case 28

Background:

This is a sixty year old company, engaged in manufacturing and trading of ceramic tiles, vitrified tiles, mosaic tiles and marble.

Financials of the Company:

(Rs. in crore)

Year 31.03	**Sales**	**Net Profit**	**TNW**	**Adj. TNW**	**TOL/TNW**	**Current Ratio**
2011	691.04	28.35	555.87	441.27	1.62	0.83
2012	850.68	(-) 55.45	480.07	316.63	2.57	0.65
2013	781.47	(-) 231.34	276.73	84.03	4.71	3.46

CDR: Reasons and Implementation:

About 55% of revenue of company was generated by sale of tiles manufactured and imported from China. Due to sudden appreciation of USD in FY 2011-12, cost of imported tiles became 20% higher than those manufactured locally. This coupled with overall slump in real estate led to decline in sales of the company. Due to higher prices, lower sales, piling up of inventory and resultantly cash losses from December 2011, account of the company became irregular since early 2012.

TEV study established viability of the operations. CDR package was approved at end of 2012 (with lenders' sacrifice of Rs. 221.64 crore and promoter's contribution of Rs. 53.96 crore) and implemented in March 2013.

As per the CDR package, the company was to sell its non-core assets of Rs. 550.00 crore over the next four years from the cut-off date to bring down the overall debt. However, the company was unable to sell any of its non-core assets.

The company stopped routing its sale proceeds through TRA account with MI since December 2013 and has admitted having opened current account with other banks (CDR as well as non-CDR) despite all the pressures mounted by the lenders to close all such accounts.

The company is not honouring its repayment obligations.

The company had requested for a 2nd follow up restructuring however it was not accepted by CDR lenders.

External Credit Rating of the company is suspended. Financials of the company are impacted by weak liquidity and high gearing. Further, the company was unable to come up with any other alternative concrete plan to repay its debts. Hence, a decision to exit out of the account has been taken.

Suggestion:

CDR EG does not have any enforcing power. As a result the borrowers do not take the CDR structure and its implementation seriously. They adhere to the stipulations if it suits them. If adherence of stipulations does not suit them, they simply walk out of it making the whole exercise defunct.

Case 29

Background:

The company, engaged in the manufacturing of textile products was incorporated on during 1991.

Financials of the Company:

(Rs. in crore)

Year	Sales	Net Profit	TNW	Adj. TNW	TOL/ TNW	Current Ratio
2006-07	150.89	13.21	73.71		2.24	1.20
2007-08 (18 months)	244.90	(-) 61.69		13.09	27.15	0.75
2009-10 (6 months)	77.86	5.86	32.80		9.90	0.84
2010-11	178.11	0.95	84.37	2.62	3.14	0.86
2011-12	207.30	(-) 3.72	125.76	18.73		
2012-13	240.49	(-) 33.38	92.62	(-) 16.29		

CDR: Reasons and Implementation

Demand for one of the products of PEL started falling since 2006. A fire accident took place in their unit in February 2007. Their raw material cost increased and level of production suffered due to relocation of plant. All this resulted into losses to the company in the year 2007-08.

A reference was made to CDR which was approved in March 2009 and implemented. Resultantly, the company was able to achieve the top line as per the projections made under CDR. However, the projected bottom-line could not be achieved due to volatility in raw material prices, low capacity utilization. As such, the company defaulted in meeting its repayment obligations in terms of CDR and had to be classified as sub-standard in December 2011.

TEV study was conducted in October 2012 for examining the fresh reworking proposal submitted by the company. Viability of the package was established. The promoters were advised to bring in substantial funds by recovery of the company's investments made. However, the promoters were not able to either recover the investments or raise any resources on their own. As a result the restructuring failed.

Case 30

Background:

The company is engaged in the manufacturing of bulk drugs and formulations.

Financials of the Company:

(Rs. in crore)

Year 31.03	**Sales**	**Net Profit**	**TNW**	**Adj. TNW**	**TOL/TNW**	**Current Ratio**
2010	351.11	29.92	128.37		3.33	0.74
2011	309.99	(-) 22.27	100.73	(-) 127.19	4.68	0.90

CDR: Reasons and Implementation

Figures in the bracket are projections for the relevant period.

Due to mis-match in cash flows, derivative losses, decrease in API (Active Pharmaceutical Ingredients) margins, and acquisition of its step-down subsidiary, the company was not able to service its debt since 2010. As a result, a reference was made to CDR Cell which was approved in April 2011.

The CDR package is under implementation. In the meantime, the company has defaulted on principal and interest. Lenders are yet to decide next course of action.

Case 31

Background:

It is seventy year old company engaged in manufacturing of textiles products, mainly cotton fabric. With continuous diversion and expansion, the company became a well-known brand.

Financials of the Company:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj. TNW	TOL/TNW	Current Ratio
2009	557.11	(-) 61.36	82.66	21.01	8.64	0.67
2010	589.78	(-) 60.88	22.46	(-) 30.66	31.78	0.61
2011	722.19	56.04*	74.66	29.73	9.21	0.58
2012	787.59	(-) 68.05	2.88	(-) 41.39	236.78	0.44

CDR: Reasons and Implementation

In the year 1995-96, the company undertook a major expansion and modernization drive for all of its manufacturing units with a total outlay of Rs. 400 crore. However, due to downward trend in the textile industry in the late 90s and heavy cash losses suffered by the PSF unit, the company went into red with heavy debt burden. In the year 2001, with the approval of all the lenders, the company undertook a restructuring exercise. The loss making PSF unit was hived-off and later on sold.

By consolidating its remaining business, the company retained debts to serviceable levels. During FY 06, company hived off its steel business in order to focus on its core activity of textiles. During 2005-06, the company undertook a major modernization-cum-expansion of its two textile units at various places involving a capital expenditure of Rs. 298 crore, funded through term loans and FCCBs.

However, the performance of the company was impacted in 2009 due to slow down in global economy. To overcome the situation, the company approached the lenders for restructuring of the term loans under TUFS scheme by extending the original repayment period. A loss making unit and some non-core assets were also sold by the company to overcome the situation.

In FY 12, performance of the company was further affected due to fluctuation in the raw material prices. Though there was growth in the sales of the company, however, its operations were continuously in loses resulting in erosion of net worth. Continuous operating losses, negative NWC and weak current ratio affected the working of the company adversely. The company could not service interest / instalments from internal accruals. They also could not redeem the FCCBs which fell due in April 2011. Due to declining financials, company once again made a request for restructuring. Reference to CDR Cell was made in January 2012.

TEV study concluded that the unit was viable provided certain reliefs such as re-scheduling of term loan instalments, reduction in interest rate etc.

The sacrifice amount was Rs. 16.22 crore and promoters contribution Rs. 10.00 crore.

The package is under implementation. The accounts of the company are running regular; however, latest external credit rating is ‘D’ by ICRA.

Suggestions:

This is a case of expansion into unrelated area (diversification to steel industry by a textile industrial unit). It should be allowed only if the management is professionally competent to manage the new area/s.

Case 32

Background:

The company was incorporated in 2008 to set up a Free Trade Warehousing Zone (FTWZ). FTWZ is a special category of SEZ. Activity of the company was to provide world class infrastructure for warehousing, handling and transportation equipment, commercial office space, utilities and one-step clearance of import and export of goods.

Financials of the Company:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	TOL/TNW	Current Ratio
2012	0.03	(-) 0.44	266.76	1.40	0.23
2013	67.03	(-) 19.41	261.59	1.47	0.99

CDR: reasons and Implementation

FTWZ is relatively a new concept in India. The company could not achieve the revenues as expected in 2010-11 as the operations of the company were severely affected due to various operational and regulatory issues. There was delay in commissioning of rail terminal. Company’s efforts to procure Electronic Data Interchange (EDI) connectivity could not fructify due to lack of co-ordination between the Ministry of Finance & Ministry of Commerce. Import General Manifest (IGM) approval for FTWZ also got delayed.

Due to delay in commencement of commercial operations, financials of the company got deteriorated. The company could not manage the financials. A reference was made to CDR Cell. TEV study opined that the company with excellent infrastructure and good business potential is technically a viable company and has sound potential to achieve its business goal without much trouble subject to compliance of the recommendations of the consultants.

CDR was approved in September 2013.

Though the current IRAC status of the company is standard, its external credit was down at ‘D’ by ICRA. The company’s ware house occupancy level has come down substantially. The lower occupancy has resulted in inadequate cash accruals. The interest servicing is not being done.

Case 33

Background:

The company was incorporated in 2008 to set up a container train business and holding category I license which allows the company to operate on Indian rail network on pan-India basis, both domestic and EXIM traffic. The company started its operations in February 2009. Project which was scheduled to start on 31.03.2010 could start with delay on 31.03.2012. In the meantime, the facilities granted to the company were restructured in November 2011.

Financials of the Company:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	TOL/TNW	Current Ratio
2012	270.68	6.16	106.62	5.43*	1.48
2013	301.79	(-) 48.28	61.07	11.58*	0.52

CDR: Reasons and Implementation

Due to delay in start of the project, company had to raise further debts which added to their finance cost heavily. Operations of the company were dependent on the policies of Indian Railways and the regulatory changes had affected the operations of the company. Resultantly, the company faced financial pressures and could not achieve the envisaged business targets due to change in the business model of group companies affecting its operations. It was facing difficulties to honour its financial commitments to the lenders, therefore, approached its consortium lenders for CDR.

TEV study of the company conducted in March 2013 suggested that:

- Company should strengthen its board with induction of more professionals and few independent directors with adequate industry experience.
- The company has faced certain business risks and may continue to face in future due to downsizing project plan of the group, and therefore appropriate mitigation measures need to be taken.
- Company's operating cost has increased from 66.30 % of revenue to 71.37 % by 2011-12. Haulage charges account for major portion of operating costs of PCTOs and are determined by Indian Railways. Frequent increases have affected operating margins.
- The operations of the company are dependent on Indian Railways. Any regulatory changes may affect company's operations significantly.
- Present financial problems will continue for some time till operational hiccups like optimal utilization of Khurja sliding facility and reduction in empty rakes movements are resolved.
- Company's total debt expenses from bank and other institutions increased from Rs. 97.11 crore (2007-08) to Rs. 536.23 crore (2011-12). DER is 3.49 in 2011-12 (sanction DER is 1.77.
- Considering the capital investment made by the company and the long gestation period to stabilize operations, it will be very challenging for the company to make profit in the initial period of 3 – 4 years.
- The project / company is technically and commercially viable. However, the success of CDR scheme depends on many other

factors including capital structure of the company, which both the lenders and the company will consider for turnaround of the company.

The proposal was approved on 25.07.2013. Sacrifice amount was calculated at Rs. 19.61 crore, to be contributed by the promoter fully. During the course of implementation of CDR package, the company is not routing its cash flows through TRA account with a member bank. Company has clarified that they are not able to route its receivables through TRA account because the bank does not have e-freight payment facility.

Case 34
Background:

Company was incorporated in August 1993 and engaged in textile manufacturing of partially oriented yarn (POY), polyester texturized yarn (PTY), fully drawn yarn (FDY) and draw texturized yarn (DTY).

Due to liquidity pressures, the company could not service its debt since July 2013. As a result of this, a reference to CDR cell was made in November. The package was approved in March 2014

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/TNW	Current Ratio
2011	433.49	4.06	93.78	93.61	2.83	1.14
2012	682.83	3.83	105.62	105.45	4.40	1.10
2013	713.36	3.71	152.80	152.63	3.55	1.06

Reasons for CDR:

- Shortage in supply of raw materials in domestic market
- Economic slowdown
- Weakening of INR vis-à-vis USD
- Surplus capacity without at downstream process
- Long debtors cycle
- Increase in interest obligations and debt pile up

Current Status:

The company is still under moratorium period.

Company neither intends to provide any additional security nor bring in funds from other sources. The company is also unnecessarily delaying special investigative audit.

Case 35

Background:

Company was engaged in the manufacturing of copper rods, strips, flat etc.

The company had planned for expansion project for copper tube production. The COD for the project was October 2010 but it was delayed due to delay in sourcing of machinery and delay in arrival of foreign staff for installation and hand holding. The project was completed only in November 2011 while its repayment started from April 2011. The company decided to pay its TL obligation leading to liquidity strain, which resulted in devolvement of LCs and irregularity in TL and CC account.

Indebtedness of the borrower:

200 crore

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/TNW	Current Ratio
2010	179.48	8.98	86.02	86.02	1.55	1.38
2011	284.90	12.57	188.03	111.01	1.27	1.26

Reasons for CDR:

- The company's cash accruals were not sufficient to meet its term loan obligations
- The company could not bear the burden of interest payment
- Company's plant could not stabilize leading to escalated costs of operations. Moratorium provided to company proved to be insufficient due to delay in COD.
- Working capital funds were used to pay term loan interest and installments leading to serious liquidity crunch.

Observations:

Working capital funds were used to pay term loan interest and instalments leading to serious liquidity crunch.

Case 36

Background:

Company was incorporated in November 1988 to set up a 100 % export oriented spinning mill for the manufacture of cotton combed yarn.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/TNW	Current Ratio
2006	212.6	6.23	94.66	94.66	2.33	1.18
2007	251.93	7.24	107.98	107.98	3.12	0.94
2008	276.79	(-) 18.75	80.50	80.50	4.66	0.87
2009	287.75	(-) 52.51				
2010	387.32	(-) 18.61				
2011	667.59	9.04	36.6			
2012	749.25	0.13	36.79			
2013	1139.49	27.11	64.88			
2014	1410.33	104.93				

Reasons for CDR:

- Declining margins in industry due to increase in cotton prices; increase in prices of yarn not been commensurate with increase in raw material prices; competition and increase in prices of oil
- Appreciation of rupee against USD (from Rs. 43 to Rs. 48). Export orders of the company got cancelled and they had booked forex in excess. The excess forward booking of forex got cancelled with exchange loss to the company.
- Blockage of funds in government receivables leading to cash flow problems
- Dependence on furnace oil based power which resulted in higher cost
- Time over run of 7 months

The company was admitted to CDR in November 2008.

Present Status:

Company's performance with reference to revenue generation and EBIDTA has been better than the projection / estimations made during CDR, however, there is shortfall in profit due to open derivative option, and increased interest o/a enhanced WC limits and deferred tax.

Case 37
Background:

The company is engaged in the activity of construction of highways, roads, railways, power / telecom transmission towers and commercial buildings.

The company had been facing tight liquidity position due to various internal & external factors like sluggish economy and weak industry scenario in infrastructure sector.

CDR was approved in December 2012.

Performance and financial Indicators:

(Rs. in crore)

Year 31.06	Sales	Net Profit	TNW	Adj. TNW	TOL/TNW	Current Ratio
2011	1290.27	52.04	620.78	405.83	2.76	1.18
2012	1148.20	(-) 71.98	548.44	292.11	3.88	0.59
2013	1000.50	(-) 194.30	392.47		5.96	0.73

Reasons for CDR:

- Considerable blocking of working capital in WIP and slow moving debtors
- High debt and interest burden
- Investment in BOT projects
- Operating losses
- Delay in approvals
- Weak industry position

Present Status:

Company's accounts are running irregular and account has turned NPA.

Case 38

Background:

The company is engaged in the manufacturing of sponge iron, steel billets and ferro alloys along with power generation.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/ TNW	Current Ratio
2011	364.63	8.91	169.26	169.26	4.30	0.80
2012	313.30	(-) 31.81	191.65	191.65	6.00	0.84
2013 (Est.)	288.58	(-) 97.80	111.26	108.52	11.17	0.96

Reasons for CDR:

- Consistent increase in iron ore and coal prices due to scarcity, resulting in high cost of raw material without commensurate increase in finished goods prices
- Sluggish demand for steel due to construction / housing projects not taking-off as envisaged leading to low capacity utilization
- Delay / non-stabilization of operations
- Disproportionate debt obligations and consequent high interest burden as well as repayment obligations.

Present Status:

Restructuring package has been implemented in September 2013. Capacity utilization has improved to 70%.

Case 39

Background:

This is an eighty year old company. It is engaged in the manufacturing of refined sugar, white crystal sugar and ethanol. At present, this company is amongst the top 10 integrated sugar companies in India.

The company was first referred in CDR in the year 2003. The restructuring proposal was approved wherein TLs amounting to Rs. 69.76 crore were restructured, along with other usual reliefs. The term loans, then restructured, have since been liquidated.

The company was referred second time to CDR in December 2007 and the approval CDR was implemented in March 2008.

Due to downturn in the sugar industry the company again approached the lenders in 2012 for re-work of the CDR package along with business restructuring.

The package was approved in August 2012. Under business restructuring, the existing power-cogeneration and potable alcohol businesses of a division were hived-off to two newly incorporated companies.

Performance and financial Indicators:

(Rs. in crore)

Year	Sales	Net Profit	TNW	Adj TNW	TOL/ TNW	Current Ratio
Oct 10 – Mar 12 (18 M)	1199.53	(-) 14.18	(-) 37.82	(-) 72.95	- ve	0.61
2012-13	884.94	(-) 40.02	3.83	(-) 326.13	426.94	0.61

Present Status:

The company is adhering to the repayment schedule as approved under CDR.

Case 40

Background:

The company is a pharmaceutical unit, incorporated in the year 1984 and engaged in the manufacturing of vaccines and formulations.

Company's accounts were first restructured under CDR in December 2010. The company was not able to repay loan instalments due to inadequate cash accruals. In view of the problems faced by the company and recent developments which may lead to a revival of the company, it approached its lead bankers for restructuring of debt under CDR in the year 2014 and CDR package was reworked.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj. TNW	TOL/ TNW	Current Ratio
2011	1130.46	135.05	541.97	260.59	1.99	1.39
2012	696.38	(-) 207.79	349.11	67.35	2.98	1.03
2013	594.23	(-) 230.13	136.46	(-) 151.24	8.20	0.64
2014	497.24	(-) 0.42	135.87	(-) 258.33	9.75	0.35

Reasons for CDR:

- De-listing of company's DPT based combination vaccines by WHO from the list of its pre-qualified vaccines in August 2011. As a result of this, company's sales declined drastically thereafter.
- No returns on investments made by company in its associates / group concerns.

Present Status:

Recently approved

Case 41
Background:

The company, incorporated in September 1994, is engaged in the manufacturing of cables and wires. The company broadly caters to power sector, Indian railways and telecom sectors.

The company's accounts were restructured under CDR in December 2010 due to loss booked by the company in FY 09 and FY 10. As per CDR package, the company was to monetize its non-core assets by 31.03.2012, which could not be sold.

The company incurred losses in FY 11 and FY 12 also and its cash accruals were not adequate to meet repayment obligations.

On request of the company, its CDR package was reworked, which was approved in July 2012.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/ TNW	Current Ratio
2011	385.08	(-) 101.58	65.53	37.17	7.54	1.15
2012	463.45	(-) 58.36	3.89	(-) 24.59	135.29	0.85
2013	467.73	(-) 4.64	(-) 13.20	(-) 19.68	-ve	1.03

Reasons for CDR:

Loss in FY 11 and FY 12 also and cash accruals not being adequate to meet repayment obligations

Present Status:

As per reworked CDR package, the company was also to sell a property. However, the property could not be disposed of. The company has also not adhered to the repayment schedule stipulated in the rework CDR package and accordingly the account was downgraded to sub-standard due to failed restructuring.

TEV study conducted in February 2014 shows that the operations of the company will remain non-profitable for the next seven years by considering the production of optical fibre at 100 % in next seven years. As such, the company has been declared as unviable.

Due to erosion of net worth, the company has approached BIFR for declaring it a sick company. Final judgment in the matter is awaited.

Case 42

Background:

The company, incorporated in February 1984, is engaged in the manufacturing of combed cotton yarn, knitted fabric, non-woven fabric, garments etc.

The unit commenced commercial production in October 1990 and thereafter continued to expand and diversify in related areas / activities. During FY 06, the company undertook further expansion and diversification. Company is an export oriented unit.

The company was a consistent profit making till FY 07. However, the company's financial position had taken a severe beating in FY 08 and FY 09 on account of appreciating rupee vis-à-vis USD (during FY 08), derivative losses of Rs. 29 crore, higher cotton prices, recession in the market etc. The company incurred losses of Rs. 28.93 crore in FY 08. Consequently, the company found it difficult to repay its term debt instalments. Keeping in view the continuance of liquidity crunch in near future, the company requested for restructuring under CDR which was approved in December 2008.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	**Sales**	**Net Profit**	**TNW**	**Adj TNW**	**TOL/ TNW**	**Current Ratio**
2007	228.43	4.52	150.66	140.38	2.48	1.19
2008	311.22	(-) 28.93	121.92	111.47	3.62	1.01

Reasons for CDR:

- Appreciating rupee vis-à-vis USD
- Derivative losses (currency SWAP for rupee term loans)
- High cotton prices
- Recession in the market

Present Status:

Promoters have infused their share of funds. Performance of the company for the year 2013-14 is better than the CDR projections. Both turnover and profits are surpassed then the CDR projections.

The company is planning to come out from CDR. Lenders will advise recompense amount.

Case 43
Background:
The company was originally established as a partnership firm in the year 1999. Later it was converted into a company and incorporated in December 2002. Company is engaged in manufacturing of transmission towers, overhead aluminium conductors, non-ferrous alloys, generation of solar power and undertaking EPC contracts on turnkey basis.

The company has diversified its presence into international market. It has executed international orders in African countries like Ethiopia & Zambia. It is also executing contracts in power sector in Nepal, Afghanistan and Nigeria.
In order to diversify, the company had taken up EPC contracts for roads and bridges and BOT based road projects. However, since these projects are not the core competency of the company, it has also recently surrendered the BOT based road projects.

The operational performance of the company has been severely affected and it incurred losses due to cost & time overruns impact on margins due to entry of new players in the sector, price volatility in metal prices, etc. As a result, there was strain on company's liquidity and hence, the company requested for restructuring under CDR which was approved in December 2012.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/ TNW	Current Ratio
2011	862.10	49.68	164.72	164.69	2.58	1.20
2012	610.31	(-) 59.86	83.26	79.36	9.07	0.62

Reasons for CDR:

- Exponential growth not matched with corresponding amount of funds contribution from the borrowers.
- Stressed operational performance
- Provisioning required for slow moving assets.

Present Status:

The projections envisaged at the time of CDR are not met. Due to increase in cost of raw material, which could not be passed on, the company is facing low cash accruals. Company's liquidity is further affected due to delay in realization from debtors. Most of the projects of the company are running with delay with cost overrun as a result the company is likely to suffer further losses. Company is facing various litigation and numerous court cases for recovery of outstanding dues by various banks, FIs, pressing creditors etc. including winding up petition and cases u/s 138 as well.

Case 44

Background:

The company was set up as a joint venture by two entities i.e. one NBFC and another industry major. The company provides shares telecom infrastructure to cellular / wireless operators.

At the time of conceptualization of 9500 towers, the company had anticipated the telecom industry to grow substantially due to 2G subscriber growth and anticipated roll-out of newer technologies such as 3G & 4G services. However, in view of the changed business dynamics like delays in 2G roll-out, delay in 3G / BWA auction, cancellation of 2G licenses etc., the sector witnessed a series of market and regulatory hurdles which resulted in curtailment of expected growth in the sector.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/ TNW	Current Ratio
2011	177.11	(-) 113.16	148.97	148.97	6.00	1.52
2012	201.07	(-) 111. 78	129.43	129.43	6.75	0.49

Reasons for CDR:

- Due to delay in 2G roll out of new service providers, the demand for tower infrastructure failed to pick up as envisaged resulting in scale down if its roll out plan from original 9500 towers to approx. 2500 towers.
- Slowdown in the industry resulted in lower margins.
- Delayed auction of 3G and broadband wireless access.
- 2G scam and cancellation of 122 2G license by Supreme Court adversely impacting the rollout of towers and tower tenancy.
- Pressure of rising interest rates

Due to strained liquidity situation on account of regular servicing of debt without adequate generation of cash flows from operations, the account was referred to CDR cell in July 2012 and approved in March 2013.

Current Status

The company is now being controlled by a PE investor from Mauritius.

Case 45
Background:

The company was incorporated in 1989 and in the business of providing drilling services to clients engaged in oil and gas exploration & production industry. It has pan-India presence with its drilling/ seismic/ EPC contracts mainly with ONGC and Oil India Ltd. It has also undertaken overseas contracts in Oman, Iraq and Egypt through its subsidiaries. Initially it started as a sub-contractor, but in the post 1991 period, it established itself as full-fledged operator, working directly for ONGC and Oil India Ltd.

The conduct of account has not been satisfactory after November 2011 as it became irregular due to mismatch in cash flows and delay in realization of debts related to ONGC and OIL.

The company requested for restructuring of its debt under the CDR mechanism. CDR package has been approved in January 2014.

Promoters' contribution in lenders sacrifice:

Sacrifice of the lenders has been computed as Rs. 362.81 crore out of which CDR lenders' sacrifice is Rs. 340.97 crore.

Promoters shall infuse Rs. 100 crore (i.e. 29.33% of CDR lenders sacrifice) as their contribution towards lenders' sacrifice. Promoters shall also bring Rs. 480 crore by sale of core assets not yielding any income by March 2015.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	Sales	Net Profit	TNW	Adj TNW	TOL/ TNW	Current Ratio
2010	1071.80	92.00	907.93	719.41	2.40	1.20
2011	1222.13	40.65	954.50	785.65	3.00	1.29
2012	1259.32	69.17	997.76	876.52	3.12	1.04
2013	1074.24	37.65	1026.36	819.04	3.49	0.81

Reasons for CDR:

- Client concentration
- Rigs redeployment time and cost
- High level of debtors and delay in debtor realization
- High leverage and increasing finance cost
- Mismatch in tenor of assets and liabilities
- Current credit rating (default) resulting in further fund raising issues and raising cost of debt
- FCCB redemption liability

Present Status:

Under moratorium

Case 46

Background:

The company was set up in the year 1969 to undertake the activity of offset printing.

In the past, the company's term loans were rescheduled on two occasions, in 2006 and in 2008, owing to the following reasons:

Conduct of accounts of the company was satisfactory in the past. However, during 2008-09 and 2009-10, the company was besieged with many problems leading to losses and hence requested for restructuring under CDR. The package was approved in June 2011.

Performance and financial Indicators:

(Rs. in crore)

Year 31.03	**Sales**	**Net Profit**	**TNW**	**Adj TNW**	**TOL/TNW**	**Current Ratio**
2008	106.17	2.22	66.23	60.26	1.96	1.03
2009	97.77	(-) 2.66	60.95	54.89	2.26	1.05
2010	81.75	(-) 7.37	51.49	45.09	2.55	1.06
2011	54.98	(-) 10.50	17.37	17.16	6.80	0.80
2012	52.24	(-) 11.58	1.64	1.43	74.10	0.93
2013	58.79	(-) 8.09	8.55	10.84	12.70	1.01

Reasons for CDR:

- Global recession for three years
- Increase in freight charges and the raw material which could not be passed on to the customers
- Appreciation of rupee thus lower realization out of export proceeds

TEV Study:

According to TEV study conducted by Bank's empaneled Chartered Engineers firm, the unit is operationally viable in 10 years. However, if sale of some of the company's properties is done, period of restructuring can be reduced to 4 years and 6 months.

Present Status:

Part of the assets have been monetized however, one asset is yet to be sold. Instalments and interest is being serviced.

Case 47 and 48

No major observations and findings

Case 49

Background:

The company is a flagship company of well diversified group. The group has set up a Spinning unit with a 100% export oriented unit. The company is having an installed capacity of 31000 spindles to manufacture 100% cotton combed and carded yarn.

The products are exported to regions such as Korea, Bangladesh and the Far East. The company is accredited with ISO 9002 quality certification.

The company has an exposure of Rs.80.50 Cr from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2008	March, 2009	March, 2010	March, 2011
Net Sales	82.23	92.53	90.85	156.83
PAT	-7.32	-11.81	9.86	0.30
TNW	8.05	-3.55	-13.22	-13.49
Current Ratio	1.56	0.86	1.06	1.04

Key Observations:

CDR failed due to non-cooperation among the banks. One of the major banks reduced the rate of interest. Monitoring institution did not open TRA and did not share the receipts with Term lending institution.Company hasalso objected to opening of TRA. Installments in Term lending institution were not serviced at all after CDR and as a result Term Lending institution was forced to withdraw from CDR and initiate recovery proceedings.

While account continued to be NPA in the books of term lending institution, the accounts in banks remained Standard.

CDR cell could not help in resolution of Disputes among the banks and Term Lending institution.

While the company was declared sick, accounts in commercial banks remained Standard.

Account was referred to CDR cell by Term lending institution; however, in view of above developments it settled the accounts through OTS.

Promoter did not infuse the required Capital.Promoter also refused to issue OCDs to Term lending institutions which were part of CDR agreement.

Related Party Issues:

Promoter’s contribution came from one of the associate.

Case 50

Background:

The company is a listed company engaged in manufacturing and trading of Acrylic staple fiber. The company belongs to a well-diversified group. The company is the largest and most efficient acrylic fiber manufacturer of India and an important player in the global industry with exports to Asia, Europe and the Middle East.

Its dry spun acrylic fiber quality is outstanding thanks to its unique dog bone shaped cross section. Product optimization, reliability and environmental consciousness (green captive power generation since 2002) make the company a preferred supplier for acrylic fiber, tops, and tows

The company has a total exposure of Rs.170 cr. from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2001	March, 2002	March,2003
Net Sales	216.61	210.68	208.40
PAT	-46.52	-23.19	-0.30
TNW	27.14	14.11	13.99
Current Ratio	0.92	0.77	1.22

Reasons for CDR:

The company went into expansion using the short term funds and leading to liquidity crunch.

Observations:

It is a case of repeated restructuring with additional exposure taken to shore up NWC.

One of the member banks has initiated recovery proceedings against one of the group companies.

No TEV study was conducted. Only estimates were prepared by one of the Term lending institution.

The package was implemented and CDR was successful. Company later approached for additional exposure which triggered the ROR. One of the member banks insisted on recovery of Recompense amount as a precondition. The company represented for not making payments of recompense amount citing loss, however subsequently paid the same.

Company finally settled the dues of Term lending institutions and approached for additional funding.

CASE 51

Background:

The company was incorporated in 1992 and has been promoted by a group engaged in manufacturing of steel.

The company has set up a plant for processing of 3.2 LPD of milk for manufacturing milk products viz. Packed Liquid Milk, Whole Milk Powder, Skimmed Milk Powder (SMP) and Dairy Whitener, pure Ghee etc.

Company was facing problems mainly due to ban on export of casein and related products. Due to continuous problems, the company approached for CDR in 2008-09, but it did not help in improving the conditions. On 28.06.2011, company again approached for reworking of CDR, which was approved on 19.09.2011.

The company has a total exposure of Rs. 149 cr. from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2010	March, 2011	March, 2012
Net Sales	437.94	467.09	493.24
PAT	-1.78	-41.07	-18.20
TNW	39.06	-2.02	-19.72
Current Ratio	0.67	0.50	0.72
ROCE	-0.39	-11.25	-3.37

Reasons for referring to CDR:

Company was affected by economic slowdown in USA. Company suffered forex losses due to ban on exports of casein and related productsand cancellation of contracts.

Observations:

Company cited the forex losses and ban on dairy export as the reasons for approaching CDR;however it is observed that sales have increased during the relevant period.

Company’s current ratio has continuously remained below for three years. Company has stated that sanction of corporate loan has increased the debt of the company and it is not able to serve corporate loan.

Company has also taken loans from related parties at 14% p.a., which it is serving regularly. Although the company is incurring loss, the repayments of bank loans have also been regular.

No additional exposure was taken, however, loans were rescheduled.

Accounts are standard in the banks and CDR is under implementation.

Case 52

Background:

The Company was incorporated in 1991 as joint venture between one state Government and private promoter. The Company set up a sugar factory with an installed capacity of 2500 TCD along with the facilities for co-generation of 5 MW powers.

The company had a total exposure of Rs.416 Cr from the banking sector.

Performance and Financial Indicators:

(Rs.in crore)

Accounting year ending	March, 2007	March, 2008	March,2009
Net Sales	173.09	206.88	697
PAT	7.84	-32.19	-20.44
TNW	302.27	269.88	318
Current Ratio	1.22	1.22	1.16

Reasons for CDR:

a. High financial cost due to delay in implementation of project.
b. Company was facing liquidity problems
c. Low realization of sugar prices.

Observations:

No concession and additional exposure was requested. Only installments were rescheduled.

CDR is running successfully. The factors contributing to the success of CDR are;

a. Timely approval, within three months of reference.
b. Promoters brought the required contribution upfront in one go. Company was able to raise funds through GDR and converted unsecured loan into equity.

All accounts are running regular.

Case 53

Background:

The company is in the business of manufacturing of Cotton Yarn since 1995.

The company products are exported to highly quality conscious buyers in Europe, Korea, China, Hong Kong, Singapore, Indonesia, Thailand, Mauritius, Egypt, Israel, Tunisia, Turkey, Morocco, Brazil, Colombia and Bangladesh.

As a part of organization's strategy to move up the value chain of textiles, the company ventured into yarn dyeing and garmenting business. The knitting division is supplying flat knitted as well as fine knitted apparels to leading international and Indian brands.

As the company set up a new knitting unit and added capacity to the existing units, the company was facing financial problems. As such, company approached CDR cell on 03.02.09 and CDR was approved on 14.05.09.

The company has availed a loan of Rs.281.66 cr. from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2007	March, 2008	March, 2009	March, 2010
Net Sales	117.73	137.73	140.92	160.69
PAT	6.67	3.52	-19.58	-6.50
TNW	71.17	86.29	66.62	71.50
Current Ratio	1.13	1.13	0.93	1.13

Reasons for CDR:

Company went into unplanned expansion without tie up of funds i.e. without seeking any additional Term Loan resulting into liquidity crunch. It failed to service principal and interest. The problems worsened due to higher cotton prices & depreciation in USD.

Observations:

It may be noted that company approached CDR in the name of liquidity crunch, instead of applying for fresh term loans.

Rate of interest on existing loans as well as WCTL and FITL has been reduced to base rate of lead bank. Additional working capital has also been sanctioned at base rate of lead bank.

TEV study has been conducted in house by Lead Bank.

All the accounts are running regular.

It suggested that cases where the company has gone into expansion in the recent years, and is approaching CDR may be subjected to investigative audit by an independent agency.

Case 54

Background

The company is a textile unit engaged in spinning of cotton textile yarn. It is a leading Supplier of Ring Frame and Open-End Yarn to Quality Conscious buyers of textile industry, for production of leading brands in denims, bottom weights, towels and knit wears. The company was incorporated in 1997. Today it is one of the leading spinning units producing yarn of the highest quality and consistency.

The company has an exposure of Rs.74 Cr from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2007	March, 2008	March,2009	March, 2010
Net Sales	56.13	68.71	84.40	106.70
PAT	2.59	2.72	-8.72	-2.19
TNW	23.14	25.85	17.19	15.21
Current Ratio	1.47	1.16	1.01	1.27

Reasons for Approaching CDR:

It was facing liquidity crunch on account of global slowdown in the year 2008 and expansion in capacity. The company approached CDR in the year 2009 for rescheduling of its existing term loans.

Observations:

The debtor expressed his inability to service the interest on existing loans however at the same time requested loan for CAPEX through restructuring.

Company has spent Rs.31.56 cr. on additional expansion and expansion project has become operational. Instead of additional TL and WC, company has approached for CDR within nine months of expansion project being operational.

Post CDR, a fresh term loan was sanctioned by one of the member banks without triggering for recovering recompense amountalthough it was a term of approval of CDR that the company will not go for CAPEX, without paying recompense amount. New term loan has been sanctioned at a higher rate compared to all existing loans.

As on date CDR package is running successful. There are number of factors for success viz. promoter had sufficient means, sales growth of the company is consistent and liquidity problem was temporary due to capacity addition.

The company, instead of applying for fresh term loan for capacity expansion, has applied for CDR, seeking additional finance deferring the payment of installments.

Case 55

Background:

Incorporated in 1975, the company is a leading manufacturer of medical equipment. Efforts of company in R&D are recognized by the government of India.

The company extended its market in SAARC region, East Africa, Middle East and Europe through dealers and strategic partners. The company is consistently growing by approx. 30%. In the past year Company has launched Multi channel ECG machine, Patient Monitoring system, X-Ray systems, high frequency C-Arm Image Intensifier and further planning to launch High Frequency X-Ray, C-PAP and Biphasic Defibrillator.

The company has exposure of Rs.128 Cr. from the banking system.

The company approached for CDR in December 09 and CDR package was approved within two months.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2008	March,2009	March, 2010	March, 2011
Net Sales	35.06	80.78	44.81	59.68
PAT	3.27	1.58	-6.97	-75.36
TNW	13.29	59.61	61.91	-1.82
Current Ratio	1.58	1.30	1.51	1.87

Reasons for reference to CDR:

The reasons cited by the company for CDR include devolvement of LC/BG resulting in irregularity, non-receipts of sales proceeds and written off of sundry debtor to the tune of 16.04 Cr. Incidentally this company is supplying medical equipment and the company from which sales receipts are pending is a telecom company. Further investment of Rs. 40 cr. in an overseas company has been written off.

Observations:

This is a case of failed CDR where recovery proceedings have been started.

Apart from supplying the products to overseas suppliers, company has also made investment in overseas companies which resulted in liquidity problem for the company.

The company had been selling its products through an overseas company, which defaulted in payments.

The package failed as the company was not able to realize its dues from an overseas company, poor cash accruals resulting into losses, Company not being able to realize investments from overseas company

Case 56

Background:

The company was incorporated in 1986.It is a part of large hospitality Group with interests in Luxury Hotels, Budget Hotels & Restaurants, Family Leisure & Sports Clubs, Travel Business, Catering & Educational Institutions, Departmental Stores and of course Restaurants.

The company had an exposure of Rs.428 Cr. from the banking system. As the company was facing tight liquidity position, it approached CDR in 2012.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2011	March,2012	March, 2013	March, 2014
Net Sales	120.70	141.62	138.32	134.06
PAT	1.37	0.99	-5.66	-232.61
TNW	191.39	254.62	267.97	40.21
Current Ratio	0.45	0.46	1.04	0.37
ROCE	5.85	8.28	8.68	18.09

Reasons for CDR:

The company approached CDR due to the reason that substantial investment in subsidiaries is not yielding result.

Another reason given was 'recession in local and international market'. As per the balance sheet, profit has come down due to 50% increase in interest expenses during the year.

Observations:

Company has made investment of 169 Cr in one of the subsidiary.

Reasons for failure of CDR

Selling investment in the subsidiaries must be the first step under such situation. It was not done. Further it was stated that the subsidiary did not have enough cash to repay the loan and advances. A provision of Rs. 238 cr. was made towards recovery from the same subsidiary.

The company also did not comply with CDR terms and conditions viz;

a. Creation of second charge on fixed assets of subsidiaries
b. Monetization of Non-core assets (Sale of one of the hotel). It could not be sold due to subdued markets (as per the company)
c. Promoter failed to rout sales through TRA

Post CDR also, the company has invested 27 cr. in subsidiaries.

There is a need for intensive audit of transaction with related parties and investment in subsidiaries and associates post CDR.

Case 57

Background:

Company launched its textile operation in the year 1997. It was India's first vertically manufacturing set up. It forayed into green farming and then integrated into knitting, dying and garmenting. The company operates in fiber production, spinning, knitting, dyeing, and apparel manufacturing activities in India. It offers yarns and fabrics; and manufactures inner wear, active wear, casual and street wear, and fashion wear. The company also provides printing and embroidery services.

The company has an exposure of Rs. 820 Cr from the banking system. Due to tight liquidity position on price fluctuations and forex losses, it approached CDR mechanism in March 12 and CDR package for the company was approved in six months.

Performance and Financial parameters:

(Rs. in crore)

Accounting year ending	March, 2011	March,2012	March, 2013
Net Sales	788	838	758
PAT	21.88	-90.52	-87.65
TNW	227.55	150.34	70.34
Current Ratio	1.02	1.01	1.24

The reasons for reference to CDR:

Losses in forex operations and ban on exports of cotton yarn resulted into losses. Further the company concentrated on one customer, which made default in payment leading to tight liquidity position of the company. Fluctuation of prices in the raw material also affected the performance of the company.

Observations:

CDR is running successfully as the management brought in promoter's contribution upfront.

Case 58

Background:

The Company was incorporated in 2001 as retail chain and became an integrated company with a retail chain of 150 stores with main focus on household goods.

The company ran into trouble during 2008 as rising debt levels crippled the business prospects and it failed to raise equity amid economic slowdown.

The company's lenders approached the corporate debt restructuring (CDR) cell during later part of 2009 and CDR was approved in a year. CDR stipulated company promoters ceding control to investors.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2009	March,2010	March, 2011	March 2012
Net Sales	1323.33	1105.46	1128.25	707.17
PAT	-141.47	-415.32	-65.16	-34.78
TNW	131.88	-495.46	307.89	275.42
Current Ratio	1.01	0.33	1.11	5.45

Reasons for CDR:

The main reasons for difficulty faced by the company were,

a. Huge debts raised by the company to buy inventory.
b. Difficulty in identifying old/ slow/ nonmoving stock
c. Poor sales
d. Reducing margins of the company

All the above factors led to liquidity crunch in the company.

Observations:

TEV study recommended for:

a. Change in management to improve operational efficiency.
b. Consolidation of stores including closure of loss making stores
c. Targeting type two and type three activities.
d. Reduction in rentals
e. Monetization of non-core assets

The company agreed to the recommendation and strategic investor was brought in. Company was split in three different entities.

CDR proposal was accepted with no additional exposure.

Company was successful in selling some of its assets and reducing debt burden.

Company is doing well and all the accounts are regular.

It was a good CDR case, which helped the company in managing its difficult phase. Timely help to the company and required action from company has resulted in success of CDR.

Case 59

Background:

The company is a textile manufacturing and exporting unit. The company is engaged in the manufacturing and export of home furnishings and selling it's product range of Venetian and vertical blinds, drapery rods, and other interior decorative and architectural items under the established brand name.

The company has entered the laminated floorings and Pashmina shawls markets as part of its growth plan. Subsequently the company introduced a wide range of home furnishing products using naturally-grown colored cotton, which has significant demand in overseas market.

The company had a debt of Rs.1035 Cr from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2008	June, 2009	March, 2010	March 2011
Net Sales	634.26	991.73	468.82	705.58
PAT	11.88	-246.25	-106.66	-118.42
TNW	308.91	72.51	-35.78	-34.28
Current Ratio	1.28	0.99	0.83	0.78

Reasons for CDR:

The reasons cited by the company were:

a. Economic slowdown and sluggish demand.
b. Increase in MSP of cotton and international competition.
c. Losses from unhedged forex deals.
d. Losses due to non-realization of debts.

Observations:

While the account is still standard in some of the banks, some banks have withdrawn from CDR and have initiated recovery proceedings.

Reasons for failure of CDR:

Non CDR members not agreeing to terms of CDR approval and obtained a stay on proceedings

Company could not manage its forex losses and derivatives losses due to its policy of not hedging.

Case 60

Background:

This is a telecom equipment manufacturing company. The company was earlier depending on supplies to one Government department only and due to non-realization of dues and decreasing demand suffered heavy losses.

The company had an exposure of 240 Cr from the banking system.

Performance and financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2009	June, 2010	March, 2011	March 2012
Net Sales	139.09	204.92	173.53	263.82
PAT	16.44	26.71		
TNW	199	209	401	656
Current Ratio	0.70	0.70	0.66	0.72

Reasons for CDR:

The company approached CDR due to huge losses suffered by the company on account of non-realization it's dues form the telecom undertaking. Company was also affected by the slowdown in the telecom sector and change in the Government policies.

The accounts of the company were in doubtful category with various banks. The company approached CDR in January 2011 for third restructuring.

Observations:

Although this account was in doubtful category, still CDR was accepted due to the following reasons.

A. The company has potential to regenerate profit

B. Company has replaced high cost debts worth 600 crs with equity.
C. Promoters command good respect in the market.
D. Business potential has increased with rollout of 3G and 4 G services.

Company came with a proposal to

a. Disposal of surplus land.
b. Hiving of loss making subsidiaries.
c. Change in the product line

Company also requested for waiver of recompense amount of Rs.230 Cr. which was accepted.

Company has suffered losses due to investment in subsidiaries, which were ultimately written of and one subsidiary sold at zero value.

Accounts are regular.

Reasons for success:

a. Company's whole hearted efforts.
b. Conversion of debt into equity in terms of CDR package
c. Proposal was supported by meaning full future plans such as change in product line, hiving of loss making subsidiaries and sale of surplus land, and diversifying to different customers.

Case 61

Background:

The company is in operation for nearly 3 decades in the line of manufacturing aluminum conductors viz., ASCR, AAC, Aluminum wire rods etc, having their application in power transmission and distribution segments. It is one of India's leading power infrastructure providers.

Company approached CDR as liquidity was strained due to delay in execution of projects for which Government could not acquire land and landowners went to court.

The company has a total exposure of Rs.1300 Cr from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

YEAR	2010-11 (Audited)	2011-12 (Audited)	2012-13 (Audited)
Net Sales	833.46	807.69	783.88
PAT	50.24	39.58	-61.24
P.U.C.	91.69	91.69	91.69
TNW	507.44	547.02	485.78
Adjusted TNW	467.93	481.31	377.82
TOL/TNW	0.87	1.18	1.65
CR	1.53	1.31	1.04

Reasons for CDR:

General slowdown in the power sector

Delay in completion of existing projects due to liquidity crunch resulted in losses Elongated receivables from state owned power utilities - Rs. 303 cr. were blocked even though most of the works / milestones have been completed.

Delays and cost overruns in completion of the hydro power project

Case 62

Background:

The company was incorporated on 15.03.1985.

The company is engaged in the business of shipbuilding and ship-repair. The company has undertaken substantial capacity expansion over the past few years and currently, has a capacity to build vessels up to 120,000 DWT.

The company has exposure of Rs11500 Cr from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Period ended	**Mar 11**	**Mar 12**	**Mar 13**
Total Revenue	2,082.66	2,432.69	2,149.33
EBITDA	561.09	667.85	629.03
Finance Cost	221.32	330.74	401.30
Net Profit/(loss)	188.80	180.29	107.13
EBITDA Margin	26.94%	27.45%	29.27%
PAT/Total Revenue (%)	9.07%	7.41%	4.98%

Reasons for CDR:

The company approached for CDR due to the following reasons:

a. The global financial crisis of 2008 impacted the shipping industry severely, due to fall in commodity demand & global trade that led to fall in charter rates adversely impacted the shipbuilding industry.
b. The fall in freight rates has resulted in fall/cancellation in new ship/vessel orders impacting the shipyard business. The cancellation of vessel contracts resulted in piling up of inventory and WIP. This has resulted in paucity of working

capital and caused significant increase in the operating cycle, thereby aggravating the liquidity problem & financial stress

c. The overall capital structure of the Company has weakened on account of significant debt raised to fund its capex and growing working capital requirements
d. Delay in release of subsidy claims / withdrawal of subsidy schemes
e. The Company is not in a position to meet the term loan repayment in the current financial year and next financial year.

Observations:

The company used short term financing to part finance the capital expenditure on one of the shipyards. Compared to the total capital expenditure of Rs. 2,400 crore, the Company availed long term debt of only Rs. 1,450 crore. It was not able to roll over its short term debt thereby creating financing problems

Restructuring has been approved in March 2014 and has been implemented.

Case 63

Background:

The company is engaged in construction Industry, which covers various sectors like Residential Buildings, industrial Complexes, and Development of Projects etc. The Company is professionally managed with adequate infrastructural facilities.

The company has a total exposure of Rs.6500 Cr from the banking sector

Company approached CDR in later 2013.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2010	June, 2011	March, 2012	March, 2013
Net Sales	3,415.47	3,828.90	4,349.23	4,673.05
PAT	279.41	246.83	161.03	168.27
TNW	1,456.49	1,737.66	1,792.05	1,951.87
Current Ratio	1.07	1.02	0.89	0.83
ROCE	16.11	14.56	14.92	13.27

Reasons for CDR:

The following reasons were cited for reference to CDR.

a. Slowdown in infra sector
b. Financial commitment towards subsidiaries and joint venture.
c. Blockage of funds in working capital
d. Higher cost of borrowing
e. Delay in land acquisition and environmental clearances

Observations:

It is observed that 52% of the receivable were more than 365 days old. These receivable were not declared doubtful or bad assets. 95.56 cr. were classified by the company as doubtful with expected recovery of Rs.27 Cr.

Proceeds of term loan raised by the company has been utilized for repayment of earlier loans of the same bank after routing the loan proceeds through current accounts in a third bank which is not member of consortium.

Funds from short term sources have been used for long terms to the extent of 1681 Cr during last three years.

TEV study pointed out that revenue and expenditure are overstated for past three years.

Rs.2124Cr. has been invested by the company in its subsidiaries.

Case 64

Background:

The company is the flagship listed entity and holding company of an infra Group. The Group was established in 1988-89. Over the years, the group has gained experience in power generation, civil engineering and construction and real estate development. Subsequently, it consolidated the power, construction and property development assets of the group companies under one holding company.

The company undertakes Engineering, Procurement & Construction (EPC) of power plants, roads, bridges, buildings, irrigation canals and dams. The company is also a developer and operator of Power Plants. It undertakes development of integrated property development comprising of IT Parks, commercial and residential properties.

Financial and Performance Indicators:

(Rs. in crore)

	Audited FY 11	**Audited FY 12**	**Audited FY 13**
Net Sales (value)	7784.00	10168.00	13738.80
Interest	755.00	1053.85	2421.44
PAT	653.00	123.76	-1073.53
TNW	4623.12	4706.03	3551.44
Adj. TNW	1994.01	1979.18	334.35
TOL/TNW	5.12	9.09	13.01
TOL / Adj.TNW	11.87	21.60	138.22
Current Ratio	1.35	1.01	0.75
NWC	1986.91	89.02	-3755.77
ROE%	14.12	2.18	-ve

Reasons for CDR:

a) The company's operations deteriorated quite sharply during FY2013 resulting in 45% decline in revenues and an 88% decline in net profit.

b) The company's liquidity too has declined sharply on account of the fact that while the company could not raise fresh equity, or divest, it tried to meet its obligations towards supporting the SPVs by way of loans/ equity.

In the current scenario, to turn around, the company would need to complete the projects in hand and improve cash flows substantially. To achieve this, i.e., to revive the stalled EPC contracts and start the cash flow cycle, the company needed to take the following steps:

1. To execute the pending order book to avoid liquidated damageswhich would result in huge losses.
2. Resumption of projects which are under construction to avoid further overruns / deterioration in the assets of the SPVs
3. Resumption of supplies and services from the vendors who stopped supplies and services due to nonpayment
4. To bring the assets to their full value thereby enabling the Company and the Group to service and repay debts

   With a view to a long term solution to the problems faced by the company, LITL approached the lenders with a request for restructuring under the aegis of CDR.

Observations:

In short the reasons given by the company were:

a. Could not raise fresh equity for supporting SPVs (subsidiaries)
b. Mobilization advances received from projects have been utilized as investments in its subsidiaries.

c. Subsidiaries not performing well
d. Fuel scarcity issues are impacting power plants

None of the above is a valid reason for approaching CDR.

Many banks were not willing for CDR. Axis bank, PNB and ING Vysya bank remained out of CDR. CDR was approved by 66.67 member banks.

Company chose to keep loan for solar power projects and equipment loan of Rs.50.78 Cr outside CDR.

As there are lot of investments in subsidiaries, Forensic audit would have been made mandatory.

As per one of the stock audit reports, DP works out to 1065.62 crs as against Rs.2079.49 reported by the company.

Case 65

Background

Unit is engaged in infra project. (Construction of toll road)

Company approached CDR as income from toll collections was not sufficient to repay the loans.

As the company was becoming unviable and lenders had no option, rate of interest during first two years was reduced much below base rate.

Company was able to raise funds through GDR and came out of CDR and paid full recompense amount.

Case 66

Background:

Company is engaged in Education sector. The company was founded in 1994. Company's primary operations pertain to creating, developing and providing digital educational content in the classrooms. The Company was serving over 14000 schools with around 1 Lakh classrooms. The Company also implements IT infrastructure in Government - run Schools through its products.

During 2013, the company filed their Flash Report for restructuring under CDR, and the restructuring package was approved at the CDR-EG meeting held in January 2014.

Performance and Financial Indicators:

(Rs. in crore)

As on 31st Mar	**2012**	**2013**
	Aud	**Aud**
Net Sales	1,076.51	733.11
PAT	188.91	-40.72
TNW	1770.58	1941.14
Adj TNW	148.47	291.42
Tol/TNW	0.75	0.81
Tol/ Adj TNW	8.99	5.36
CR	0.78	0.64
NWC	-283.06	-329.74
ROCE (%)	12.20	4.12

Reasons for CDR:

Unanticipated Growth Leading to Operational Delays**:**

The Company followed a very aggressive strategy for its business. The company equipped 11000, 27000 and 40,000 classes with its product in FY 10, FY 11 and FY 12 respectively in order to maintain its leadership position in the market.

Delay/Delinquencies in recovery of debtors**:**

Due to delayed implementation and service issues, some of the schools in which the company had implemented its solutions have not made the payments as per payment schedule. Delayed payment has adversely impacted the cash flows of the company. The Problem is also aggravated by delayed payment cycle from government schools.

Heavy Investment in Education Subsidiaries with long term gestation**:**

The company has made significant investments in its subsidiaries which are engaged in education related businesses. The total investments in subsidiaries/others in FY 2013 was around Rs.1685 crore apart from Rs. 200 crore as loans & advances given to related parties

Delay in raising equity from the market due to slowdown in Equity market**.**

Observations:

Company had raised fund based limits of Rs.1058 Cr, out of which Rs.650 Cr was raised from non CDR lenders. While there was default in payment to CDR lenders, there was no default in the accounts of non CDR lenders.

80% of the total receivables were from one company, a subsidiary company.

600 Cr of receivables from a subsidiary company were classified as doubtful.

Company has made an investment of Rs.1042 Cr in one of the subsidiary, which is again under CDR.

Some of the investments in subsidiary were without any commitment for return on investments.

One of the private sector banks exited from CDR through private treaty.

Another private lender was given exclusive rights for 80% of the proceeds for monetization of non-core assets, along with permission to retain exclusive charge on some properties.

Case 67

Brief Background:

The company was originally incorporated in the year 1987 with the main objective of installing world class Wind Energy Generators in India for harnessing power from wind. It was jointly promoted by the world's largest manufacturer of wind turbines. The company is engaged in generation of wind power.

Performance and Financial Indicators:

(Rs. in crore)

As on	31.03.2012	31.03.2013
Net Sales	193.66	132.90
PAT	(42.23)	5.36
TNW	215.94	221.30
Adjusted TNW	215.94	221.30
TOL/TNW	1.40	1.09
TOL/ Adjusted TNW	1.40	1.09
Current Ratio	1.22	1.35
NWC	45.83	55.52
ROE %	(17.81)	2.45

Reasons for CDR:

In 2011, the company's operations were disrupted due to labor unrest in the company's manufacturing facility. The issues were finally resolved after five months. During these five months period production got affected adversely. Incidentally all this happened during peak season for this industry. The Company missed opportunity to book sales in spite of healthy order book. Due to this, the liquidity position of the company got adversely impacted, resulting in cash flow mismatches. This had resulted in devolvement of Letter of Credit on the banks. Apart from this the company faced pressure on margins due to increased competition and economic down turn and weakening of demand

Observations:

Post CDR the financials of the unit have improved and all the accounts are running regular.

The CDR package is expected to be successful due to following reasons.

a. Promoters brought in the desired equity upfront.
b. All banks were agreeable without any dispute.
c. Financial of the company were good.

Case 68

Background:

The company was incorporated as a private limited company in 1985 in Madhya Pradesh. This is a widely held company as 92% of the shareholding is with public. The main object of the company is manufacturing and dealing in oils, vegetable oils and fats, products of plantation, soaps and allied products. The Company commenced its operation in July 1986 with a refinery. In 1990, it set up an oil mill for extraction. In March 1992, refinery capacity was expanded. The company has now embarked upon an expansion project which involves setting up solvent extraction plant.

Company approached CDR due to heavy losses because of price fluctuations in the edible oils. Package was implemented in March, 2012.

The company has exposure of 2332 Cr. from the banking system.

Performance and Financial Indicators:

(Rs. in crore)

Accounting year ending	March, 2010	June, 2011	December, 2012
Net Sales	4029	5608	3463
PAT	224.41	-354.96	-1372.03
TNW	1552	1245	53.34
Current Ratio	1.27	2.53	0.77
ROCE	13.77	-0.02	-25.97

Reasons for Referring to CDR:

The company suffered huge losses due to price fluctuation in the international oil prices.

Observations:

Company changed its account practices also and financial were available for 15 months in March 11 and again for 18 months in Dec. 2012.

There were huge transactions with related parties and loan given are not repayable. No demand has been raised.

Company had not given any road map for coming out of CDR or how the profitability is going to be increased in its flash report.

Post CDR, company’s sales during the June2014 quarter had come down to 10.44 crs with a quarterly loss of Rs.124 Cr.

In view of the current performance, chances of revival are bleak.

Case69

Background:

The Company was incorporated as Public Limited Company in 1992 to manufacture combed cotton yarn. It was a 100% export oriented unit.

Company was having an exposure of Rs.78 Cr from the banking system and approached CDR for restructuring of its debts in the month of January 2012.

Financial and performance indicators:

(Rs. in crore)

Accounting year ending	March, 2010	March, 2011	September 2012(18 months)	March 13 (Six months)
Net Sales	132.93	184.97	249.31	103.73
PAT	-3.21	11.73	-31.68	4.64
TNW	19.77	31.50	22.87	32.16
Current Ratio	0.93	1.19	0.74	0.96
ROCE	5.49	17.13	-12.10	10.82

Reasons for CDR:

a. Variations in cotton prices
b. Ban on exports of cotton yarns
c. High interest cost
d. High cost of power due to frequent power cuts.

Observations:

Company has been changing its accounting period frequently. The accounts in the banks are regular. Company has repaid its unsecured loan.

Case70

Background:

The unit is engaged in end to end solution in education sector. The company was incorporated in the year 1985. It has entered into collaboration with various state governments for providing end to end solution in the education sector.

Reasons for CDR:

a. Fall in operating margin in U S business
b. Delay in realization of dues from its debtors
c. Non availability of assessed WC limits
d. Planned fund raising could not materialize.

Observations:

Company approached CDR cell in august 2013, and approval has been given in the month of August, 2014.

Company has been engaged in the creative accounting. Few instances are given below.

a. Out of sales proceeds of USD 28.8 Mn., USD 1.46Mn were transferred back to its foreign subsidiary on the same day towards investments
b. Out of inward remittance of USD 10.9mn, 9.2mn. again remitted to US subsidiary.
c. Out of USD 9.5 mn received from one of the subsidiary, USD 8.5 mn were transferred to other branch which remitted it back to same subsidiary on same day.
d. Consolidated details of total outstanding debtors not given by the company

e. Details of provision made against outstanding debtors not given.

Other observations:

Company is not submitting financial statements on time.

Company has also written off, realigned debt of 205.70 Cr.

Company has made investments of Rs.172 Cr in fully owned existing companies during the year 2012.13 and total investment made by company stands at 1330 Cr

Case 71

Background:

Company is maintaining a chain of hotels, having an exposure of 4200 cr. from the banking system.

Reasons for CDR:

a. Due to depressed market conditions, FCCB did not get converted into equity and remained as debt.
b. Hotel industry needs a repayment period of 15 years, whereas banks are allowing repayment period of 5 to 6 years.
c. Due to terror attacks and post Lehman crisis, the hotel industry has slipped to recession.
d. CAPEX funded by loans at a high rate of interest.

Observations:

The CDR has failed as the company could not sell its hotel in Delhi, on which the viability of the CDR was dependent. Company wanted one more year for selling of the hotel in Delhi and land in Hyderabad and extension of moratorium period by one more year, which was not allowed.

The company is in the process of completing hotel in Chennai.

Company has acquired land in Agra through subsidiary.

The company has increased the capacity at Goa Hotel from 130 rooms to 206 rooms.

Case 72

Background

It is 55 year old company initially set up for manufacturing organic chemicals. The company later diversified into manufacturing polyester staple fiber. The company went into further diversion and the Glyoxal plant.

In 1990, with a view to improving the situation, the Company introduced certain value added products like bright Trilobal yarn that fetched better prices.

Further, company diversified its activities into food products, had acquired a software development company and floated a company to deal with development of property.

The company had a total exposure of Rs. 179 Cr. Company approached CDR cell in December 2011 due to financial losses.

Performance in Brief:

(Rs. in crore)

Accounting year ending	March, 2010	June, 2011	December,2012
Net Sales	377.85	566.06	214.09
Interest	22.68	28.86	32.54
OP after interest	5.90	-8.29	-67.20
PAT	-13.87	-35.85	-189.68
TNW	210.17	216.76	16.76
Current Ratio	0.67	0.54	0.46

Reasons for CDR:

The company approached CDR due to following reasons.

a. Company suffered losses due to higher cost of power.

b. Company was unable to take new orders due to shortage of capital
c. Ban on imported recycled product.

Observations:

One of the stock auditors found shortage of Rs.15 Cr in the drawing power, due to inflated stock statements.

TEV study was conducted by BOI in house. All the additional facilities granted were to be liquidated within a period of nine months out of the sale proceeds of land. . Ideally the period between reference and approval would have been sufficient to dispose of the land.

Finally the loan accounts were closed out of sale proceeds underOTS. No recompense amount was recovered.

Case 73

Background:

The company is engaged in manufacturing of writing products viz. pens and pencils etc. Company was incorporate in the year 1992. However company faced problems due to environmental issues and competition from the market. Due to increased pressure on margins, company continued to incur losses from 2009 onward and approached CDR cell in 2010 for restructuring of its debt.

The company was having a total exposure of Rs.120.32 crs from the banking system.

Company's brief financial:

(Rs. in crore)

Accounting year ending	March, 2009	March, 2010	March,2011	March 2012
Net Sales	256.32	63.11	67.01	63.31
Interest		18.48	12.35	11.36
OP/NS (%)				
PAT	-30.91	-34.54	-34.39	-101.35
TNW	45.83	7.38	-26.13	-118.36
Current Ratio	1.03	0.94	0.60	0.21
ROE		-11.93	-11.94	-343.88

Reasons for CDR:

Company approached for CDR due to the following reasons:

a. Pressure on margins due to fluctuating polymer prices.

b. Increase in debtors resulted in squeezing of liquidity.
c. Diversion of funds to one of the associates put pressure on firm's liquidity.

Observations:

Company paid part amount upfront as a part of restructuring package, however, failed to mobilize the rest.

Subsequently, the accounts of the company were declared NPA retrospectively.

The main reason for failure of CDR was that the company was not able to comply with terms of sanctions and could not bring in the required capital.

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