

The RBI-12 cases under the IBC

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The RBI-12 cases under the IBC

Context

The RBI-12

Progress of RBI-12

Assessment

Solutions

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Twin balance sheet problem

- ▶ Started in 2010-11 after the GFC.
Rs. 9 trillion (12%) of recognised stressed advances as at 2016.
- ▶ Phase 1: rescheduling strategy.
Broken insolvency and debt recovery framework.
Lack of capital at PSBs.

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Lack of capital at PSBs.
- ▶ **Outcome: the bad news at banks stayed hidden. Underlying firm health deteriorated.**

The IBC

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- ▶ Logical mechanism: sequential process.

Seek resolution in 180/270 days. If no resolution, put firm in liquidation.

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- ▶ Extensive support framework: Law + regulations + RP + CoC + NCLT + NCLAT

Design geared to meeting prescribed timelines.

The RBI-12

- ▶ 4th May, 2017: 35AA and 35AB of the BR Amendment Ordinance, 2017
- ▶ 13th June, 2017: RBI IAC identifies 12 accounts. Criteria:
O/s > Rs. 5,000 cr; and
60% recognised as NPA
- ▶ July – August, 2017: 11 cases admitted by NCLT
May, 2018: 12th case admitted

Why?

*“The **size and nature of the NPA problem** necessitated concomitant measures to signal intent and commitment of the Government and the Reserve Bank to meet the challenge squarely. The **IBC was in place** but the **required action in respect of the large stressed accounts** was **not forthcoming on the part of banks** and JLFs. Part of the **inertia** may have to do with the **initial days of the IBC**; but part of it was also the **typical (and severe) agency and moral hazard problems** of not resolving NPAs when the banking sector is majorly government-owned.”*

(From RBI Governor's speech, August 19, 2017)

Legal strategy

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Yes. SICA, RDDBFI, SARFAESI

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What could possibly go wrong?

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Who are the RBI-12?

	Industry	Prior restructuring
Bhushan Power & Steel	Steel	5/25, SDR, S4A
Bhushan Steel	Steel	5/25, CDR, S4A
Electrosteel Steels	Steel	SDR
Essar Steel	Steel	5/25,
Jyoti Structures	Metal products	SDR
Monnet Ispat & Energy	Metal products	SDR
Era Infra Engineering	Construction	CDR, Winding up, Delhi High Court, Bond default, July-13
Jaypee Infratech	Construction	5/25; JAL and Jaiprakash Power in SDR
Lanco Infratech	Construction	5/25, CDR, SDR
ABG Shipyard	Transport	CDR, SDR
Amtek Auto	Auto ancillaries	Bond default, Sept-15; SDR for 2 subsidiaries
Alok Industries	Cotton textile	SDR

Source: CMIE Prowess, IBBI, Credit Suisse India Corporate Health Tracker, 16 February, 2017, Media reports

Who are the RBI-12?

	Borr (Rs. cr)	Bank Borr (%)	D/E	Op. profit (Rs. cr)	Int exp (Rs. cr)	ICR < 1 from	Inc prov (Rs. cr)
ABG Shipyard	7,420	83	9.2	171	940	FY 14	2,459
Alok Industries	19,929	75	4.6	2,744	3,290	FY 16	5,999
Amtek Auto	7,602	46	1.7	704	805	FY 15	1,413
Bhushan Power & Steel	35,465	76	28.3	1,921	2,268	FY 15	10,735
Bhushan Steel	43,405	68	10.5	2,481	3,480	FY 15	11,841
Electrosteel Steels	10,226	75	10.9	57	614	FY 11	3,077
Era Infra Engg	7,412	66	6.1	-49	746	FY 14	1,946
Essar Steel	34,112	69	14.5	1,738	4,787	FY 11	9,406
Jaypee Infratech	9,046	2	1.5	999	1,139	FY 16	80
Jyoti Structures	2,900	96	18.9	180	383	FY 15	1,113
Lanco Infratech	7,244	82	4.8	83	880	FY 14	2,376
Monnet Ispat	8,042	59	6.5	-26	743	FY 15	1,897
Total	1,92,805	68	6.8	11,000	20,074		52,342

Source: CMIE Prowess.

RBI-12 vs IBC firms?

▶ RBI-12:

- Total debt - Rs.3.07 trillion

Borrowing: Rs. 1.93 trillion, CL: Rs. 1.14 trillion

- Rs. 1.31 trillion from banks.
- Steel firms → 70% of debt.
- D/E 6.8.
- ICR of 0.55

▶ 142 non-RBI firms:

- Rs. 2.1 trillion.

Borrowing: Rs. 1.08 trillion, CL: Rs. 1.03 trillion

- Rs. 0.7 trillion from banks.
- Top 26 firms with debt > Rs. 2,000 cr. → 70% of debt
- D/E: 3.1
- ICR: 0.03

RBI-12 vs other IBC firms?

Variable	Unit	Non-RBI			RBI-12		
		Median	25th P	75th P	Median	25th P	75th P
Debt							
Debt (Borr + CL)	Rs. cr	567	157	1,618	14,896	13,249	37,793
Bank Borr	Rs. cr	141	53	571	6,044	4,440	17,126
D/E	Times	2.4	1.5	4.8	7.9	4.7	11.8
Tangible assets							
NFA/TA	(%)	25	9	46	52	13	56
Operations							
Sales	Rs. cr	206	54	581	2,686	2,050	10,402
Op profit/Sales	%	1.8	-18.1	6.9	13.7	3.8	21.2
NWC (CA - CL)	Rs. cr	-33	-191	11	-2,942	-4,417	354
Cash to Op exp ⁵	Months	0.3	0.2	0.7	0.6	0.4	0.9
Profitability							
PBT/Sales	%	-18.1	-61.1	0	-24.6	-39.9	-15.3
Debt service							
ICR ⁶	Times	0.4	-0.5	1.4	0.6	0.2	0.8
Borr/Op profit	Times	9	5	18	18	12	38

Source: CMIE Prowess, IBBI.

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Resolution interest

	Plans received
ABG Shipyard	1
Alok Industries	1
Amtek Auto	2 (1 withdrawn)
Bhushan Power & Steel	3
Bhushan Steel	3
Electrosteel Steels	4
Era Infra Engineering	NA
Essar Steel	2
Jaypee Infratech	3
Jyoti Structures	1
Lanco Infatech	1
Monnet Ispat	1

Outcomes

	Debt o/s (Rs. cr)	Claims (Rs. cr)	Resolution Value (Rs. cr)	IH I ¹ (%)	IH II ² (%)
Amtek Auto	13,743	12,607	4,334	68.4	65.6
Bhushan Steel	61,812	57,444	36,400	41.1	36.6
Electrosteel Steels	14,582	13,958	5,320	63.5	61.8
Monnet Ispat	11,744	10,682	2,875	76.0	73.1
Total	1,01,882	94,691	48,929	51.9	48.3

Source: CMIE Prowess, Company exchange filings, NCLT Orders.

¹ Implied Haircut (IH) I = $(1 - \text{Resolution value} / \text{Total debt})$

² Implied Haircut (IH) II = $(1 - \text{Resolution value} / \text{Total claims accepted})$

IBC procedure

- ▶ Filing of CIRP petition: T_0
- ▶ Admission of CIRP petition: T_1
- ▶ Public announcement of CIRP: T_2
- ▶ Last date of submission of claims: T_3
- ▶ First meeting of CoC: T_4
- ▶ Invitation for EOI from potential resolution applicants: T_5
- ▶ Final list of resolution applicants by RP to CoC: T_6
- ▶ Receipt of resolution plans from resolution applicants: T_7
- ▶ Submission of CoC approved resolution plan by RP to NCLT: T_8
- ▶ Approval of resolution plan by NCLT: T_9

RBI-12 timelines

Company	T_0-T_1	T_1-T_2	T_1-T_3	T_1-T_4	T_1-T_5	T_1-T_6	T_1-T_7	T_1-T_8	T_1-T_9
Expected	14	3	14-90	30	75	115	135	165	180-270
ABG	29	3	15	34	41	- ¹	258	290	NA ²
Alok	19	1	14	29	72	-	-	-	NA
Amtek	-	5	17	29	-	225	225	266	357
Bhushan P&S	-	2	14	-	57	210	391	NA	NA
Bhushan S	23	0	14	-	73	-	205	-	285
Electrosteel	-	0	11	31	68	-	-	255	265
Era	-	-	-	NA	NA	NA	NA	NA	NA
Essar Steel	-	3	14	33	-	-	-	NA	NA
Jaypee Infra	-	1	15	-	79	-	-	-	NA
Jyoti	-	-	-	37	51	-	-	NA	NA
Lanco	-	3	15	36	103	-	269	-	NA
Monnet	-	7	20	-	65	-	228	-	358
Actual avg	24	3	15	33	68	218	263	270	316

Updated as of 30th June, 2017.

¹ - indicates that timeline data is not available.

² NA indicates that the case has not reached this stage.

Progress vs broader group

	Cases	Liquidation	Resolution	Ongoing
RBI-12	11	-	4 (316)	7 (358)
Non-RBI	472	134 (242)	22(233)	316 (314)
Total	483	134 (242)	26 (246)	323 (315)

Source: IBBI. For cases admitted till Dec-17. Liquidation status as at 25th July-17. Non-RBI resolution as at 31st Mar-17.

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270 days up, no liquidation. CoC reluctant to send for liquidation.
Resolved cases, pending litigation.

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- ▶ Increasing timelines. No interim finance. How are companies surviving?

Only in 2 cases. Alok and Amtek. Rs. 100 - 150 cr.

Underlying problems

1. Design principles being violated.
2. Timelines no longer mandatory.
3. Decision making no longer strictly commercial.

Why?

- ▶ 29A.
- ▶ Homebuyers.
- ▶ NCLT's overlap on CoC role.
- ▶ NCLAT accepting many appeals.
- ▶ Changes in law (twice) + regulations (seven times).

Parallel developments

- ▶ RBI withdrawing restructuring schemes. No Plan B.
- ▶ Exempt power sector from IBC?
- ▶ Project Sashakt.

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I can see no way in which this carefully laid plan could ever fail.

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Way forward

1. Increase capacity to meet case load.

Close to 1,000 companies admitted. But this is not the end of caseflow.

2. Require adherence to law.

Adherence to timelines.

Limit on appeals.

Clarity on 29A. Dispose eligibility questions with speed.

3. Delays can derail faith in IBC procedure and outcomes.

Thank you

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