Dec 2023 - Feb 2024
Vol. II Issue 4

ARC World
Newsletter of Association of ARCs in India

Performance Snapshot

(Amount in INR Crore)

	Performance Highlights of ARCs	Mar-23	Dec-23	Growth Up to Q3
1	Total Dues Acquired	848119	934712	86593
2	SRs Issued	246290	273689	27399
3	SRs Redeemed (Both full/ partial)	106867	129853	22986
4	SR Outstanding (= Issued- Redeemed)	139423	143836	4413

ICAI Award for CEO, Phoenix ARC

The Institute of Chartered Accountants of India (ICAI), initiated the prestigious 'ICAI Awards' in 2007 to recognise its members for their excellent performance and exceptional skills. The 17th ICAI Awards, organised by the Committee for members in industry and business of the ICAI, were awarded recently.

Sanjay Tibrewala, CEO, Phoenix ARC Pvt Ltd, was recognised for his exemplary contribution to the industry at the 17th ICAI Awards, where he was felicitated by the Hon'ble Governor of Maharashtra, Ramesh Bais. He has been awarded in the 'CA CXO – Emerging Corporates BFSI' segment. We congratulate him on this stellar achievement.

Success Story

Assets Care and Reconstruction Enterprise (ACRE)

In one of the largest NPA resolutions outside the National Company Law Tribunal (NCLT), Assets Care and Reconstruction Enterprise (ACRE) has successfully exited its investment in Jayaswal Neco Industries Limited (JNIL), underscoring ACRE's efficiency in effective financial restructuring. ACRE first acquired JNIL's debt in December 2018. Eight lenders comprising ~92 percent of the debt stack were acquired to take a controlling stake in the debt of JNIL. As part of the transaction, ACRE committed to acquiring Non-funded-based facilities (NFB) at 100c of the outstanding claim. The NFB facilities devolved

Our Vision

To harness a common platform for Asset Reconstruction Companies acting in coordination and develop favourable legal and regulatory environment for smooth functionng of ARCs.

during the lockdown period due to the closure of company operations. In line with its commitment, ACRE acquired these exposures at 100c of outstanding.

Post-acquisition of a 76 percent stake in debt, ACRE engaged various firms to assess the business and financial position of JNIL. As part of the process, JNIL's contracts, agreements, disputes, financials, technology, etc., were reviewed in detail. ACRE also engaged a leading sector expert to guide the ACRE team in monitoring day-to-day operations. Based on the insights obtained from this exercise, ACRE decided on the resolution strategy.

Thereafter, ACRE engaged in protracted negotiations with JNIL management on a restructuring proposal. Upon in-principle agreement on the restructuring terms, ACRE aggregated balance debt from residual lenders. In aggregate, debt was acquired from 11 lenders for a cash consideration of ~INR 2,700 crore.

The security receipts of the transaction were syndicated with nine marquee global investors. Overall, banks recovered ~73c against outstanding OPB of ~INR 3,700 crore. Furthermore, ACRE implemented the agreed restructuring and acquired a 26 percent stake in JNIL, thereby reducing JNIL's overall debt. Reduction of debt, along with the alignment of payment schedules with business cashflows, facilitated a revival of JNIL. Currently, ACRE's entire debt has been repaid, with ACRE recovering ~INR 5,600 crore against an investment of

~INR 2,700 crore. In addition, ACRE continues to hold 26 percent equity in JNIL.

The deal marked one of the few instances of a complete buyout of the debt stack of a large case on a cash basis with significant investment from many global marquee investors. The transaction has yielded decent returns for these investors, resulting in increased confidence in the Indian stressed assets opportunity. It is also the first case wherein the Competition Commission of India (CCI) cleared the acquisition of a significant equity stake in a borrower entity by an ARC. The above transaction has facilitated a revival of a large steel asset.

Prior to the acquisition by ACRE, JNIL was under stress with revenue of INR 3,578 crore and EBITDA of INR 308 crore in FY2018. At the time of ACRE's exit, the company was on course to achieve revenue of ~INR 6,000 crore and EBITDA of ~INR 1,000 crore in FY2024.

Success Story

Edelweiss Asset Reconstruction Company

Edelweiss Asset Reconstruction Company (EARC) has successfully revived and exited a reputed steel company in East India, having a total debt of more than INR 3500 crore. This resolution demonstrates EARC's ability to revive large corporates. EARC aggregated ~50 percent of the debt of the company and restructured the debt. The company exited EARC in December 2023, which is much earlier than the estimated exit date of September 2025. The exit has ensured full SR redemption to banks with upside. Recovery is 186 percent of SR issued.

EARC first acquired a small portion of the debt (4 percent) in September 2016 under the 15:85 SR structure. Thereafter, EARC got an assignment of the debt from the other four major banks. Meanwhile, other ARCs also acquired 40 percent of the debt, and a balance of 10 percent of the debt was settled by the company.

Highlights of the resolution

- The company has been incurring losses since 2012, mainly due to industry-related issues. Immediately after our first debt acquisition, we facilitated the restoration of account operation with the assignor bank so that operations stabilised.

- We restructured the debt during May 2018 at a sustainable level with a reasonable interest rate over an 8-year period, facilitating the revival of operations with the part conversion of debt into equity (12 percent). After debt restructuring, the company's operations turned around, and the company reported profit during FY2019, supported by improvement in the steel cycle. The restructuring schedule was aligned with the company's cash flows so as to enable the company to revive its operations. With the revival of the company's operations and improvement in equity value, a good upside was realised from the sale of equity shares.

- The company had defaulted on the agreed restructuring from Dec-19 to Jun-20 due to cashflow issues resulting from industry /COVID-19 issues. EARC supported the company and allowed some deferment during COVID. Meanwhile, we also impressed upon the promoters to bring equity during May'22. This liquidity helped the company to ramp up its operation and meet restructured debt obligations.

- Supported by an uptick in the steel cycle, the company's operations improved, and for FY23, the reported EBITDA was INR 330 crore. For H1 FY 24, the reported EBITDA is INR 400 crore.

- With this improvement in operation resulting from timely and appropriate debt restructuring / course correction when required by EARC, the company's profitability and market capitalisation witnessed substantial improvement. This has enabled the company to access low-cost funds from a reputed financial institution, and EARC's debt has been refinanced in full.

- This will help the company re-enter banking channels and avail fund-based and non-fund-based facilities to get access to lower cost of funds to support further growth prospects.

- As an ARC, which believes in realisation through constructive resolution, it was very satisfying to see the revival of the company and the outcome thereafter. It has helped preserve employment and taxes for governments. Also, profitability and market capitalisation of the company have improved substantially. The restructuring proves the efficacy of 15:85 SR sales by banks with 186 percent payout towards SR redemption and upside, as compared to sales by some Banks in cash or OTS at about 35 percent to 40 percent of the principal.

We invite topical articles from our colleagues to be published in the Newsletter - Chief Executive Officer

Tribute - M R Umarji

(1941-2024)

Madhukar R Umarji represented a unique combination of experience as a Legal Adviser of Banks (Bank of Baroda and Dena Bank), operational banker (Dena Bank and Corporation Bank) and a central banker as Executive Director, Department of Non-Banking Supervision, Reserve Bank of India. He has been actively involved in the process of financial and banking sector reforms in India undertaken by the Ministry of Finance and has represented the banking industry on various Committees, and Working Groups set up by the Government and RBI, including the Dr J J Irani Committee on Reforms in Company Law.

The Securitisation and Asset Reconstruction and Enforcement of Security Interest Act, 2002, was drafted by a special working group set up under the chairmanship of Umarji by the Ministry of Finance. He was also a member of the Bankruptcy Law Reforms Committee. He was a member of the Advisory Board of the Association of ARCs in India from the beginning when it was conceptualised in 2019. Our heartfelt tribute to the legend.

Legal and Regulatory Updates

High Court

In the matter of **M/s Diamond Entertainment Technologies Private Limited and amp; Ors. vs Religare Finvest Limited before the Hon'ble High Court of Delhi [WP No. 17417 of 2022 and amp; CM Appl 55452 of 2022; DOJ: 14.08.2023]** the Hon'ble High Court, while dismissing the petition, opined that if the petitioners feel that there were irregularities or illegality in taking action against them, the remedy would lie under Section 17 of the SARFAESI Act and under the facts of the present case, the petitioners could not invoke Article 226 of the constitution to frustrate the object of recovery proceedings.

Further, the Hon'ble Court held that, at this juncture, it could not transgress into the domain of the legislature to fill the alleged legal void in the scheme of the SARFAESI Act, which, according to the Petitioners, was rendering them remediless under the Act before the possession was taken over by the respondent.

RBI tighten norms for investment by REs in AIFs

RBI, through the circular, seeks to put a stop to transactions that entail the substitution of direct loan exposure of REs in debtor companies with indirect exposure through investments in units of AIFs. Such transactions lead to the concealment of the real status of stressed loans and mask the actual financial health of the Debtor Company.

NCLAT

In the matter of **UV Asset Reconstruction Company Ltd. vs Electrosteel Castings Ltd. before the Hon'ble National Company Law Appellate Tribunal, New Delhi [CA(AT)(Ins) No. 975 of 2022; DOJ: 24.01.2024]** the Hon'ble NCLAT held that the debt of a guarantor or third party which arises out of different contracts will not automatically extinguish after the approval of the resolution plan of the Corporate Debtor. Further, the Hon'ble NCLAT recorded that there is no finding in the order passed by the Adjudicating Authority wherein it was held that, on approval of the resolution plan, the entire debt of the third party, including the corporate debtor, will get extinguished.

Draft Stamp Bill, 2023

The government has prepared a draft of the Indian Stamp Bill, 2023 to align it with the modern stamp duty regime. Once enacted, the bill shall replace the Indian Stamp Act 1899. The Indian Stamp Act 1899 is a fiscal statute laying down the law relating to the tax levied in the form of stamps on instruments recording transactions. Stamp duties are levied by the Central Government, but within the States, they are collected and appropriated by the concerned States in terms of provisions of Article 268 of the Constitution of India.

Legal updates- Courtesy Edelweiss ARC

For any information, please contact:

Hari Hara Mishra, Chief Executive Officer
Association of ARCs in India
301, Solitaire 1, Opp. Infiniti 2 Mall,
Malad Link Road, Malad (West), Mumbai- 400 064

Phone: 99533 52529
Email: ceo@arcindia.co.in
Website: www.arcindia.co.in

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