

M&A Resolutions Under IBC

ICAI

27 May 2023



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Fundamental Factors

Fundamental Factors in play





IBC Journey so far



'Insolvency and Bankruptcy Code (IBC) is also an important reform measure that has resulted in robust banking systems in India. These banks have been able to provide the resources for industry to grow'

Shri Piyush Goyal, Hon'ble Union Minister for Commerce and Industry, Consumer Affairs, Food and Public Distribution and Textiles, during his address at 27th Edition of Wharton India Economic Forum, January 7, 2023.

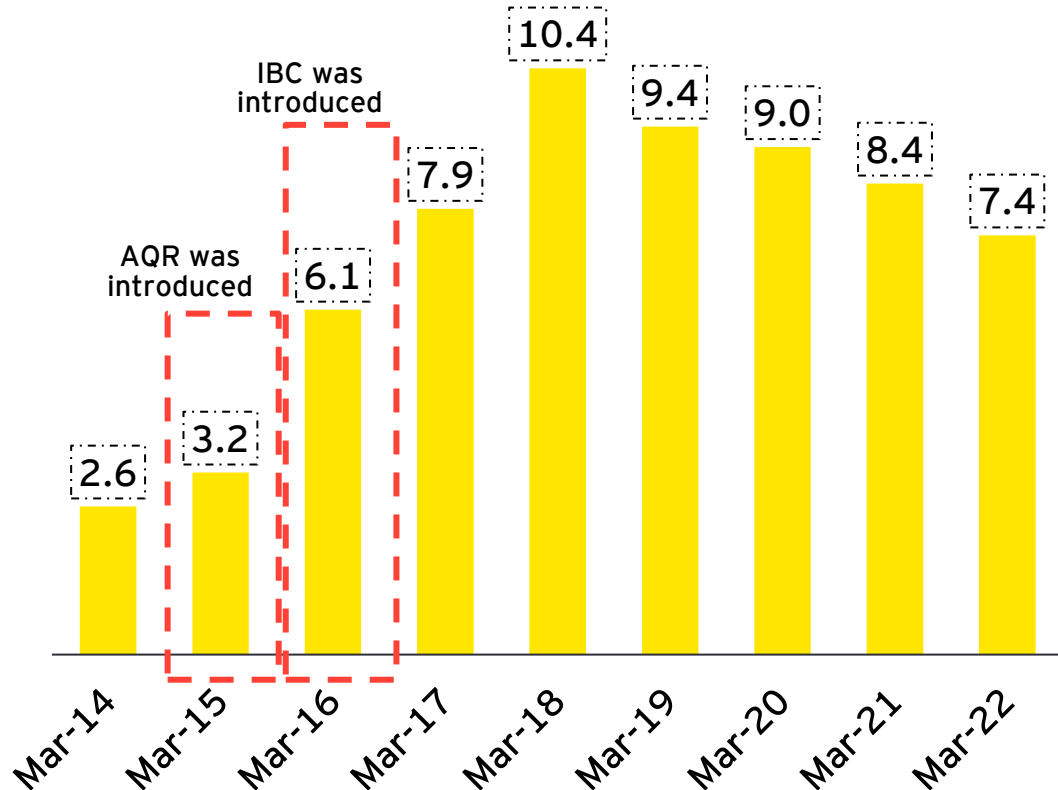
'In its six years of existence, the IBC has proven to be a dynamic code, which constantly adapts to the realities of the Indian society...The winding-up process of companies has become significantly more efficient since the promulgation of the IBC. Faster resolution of cases has spurred M&A deals in India, as bidders can more easily acquire stressed assets at lucrative prices and a number of companies are closer to the conclusion of their resolution processes'



Justice Sanjay Kishan Kaul, Hon'ble Judge, Supreme Court of India, during inaugural conference of the Insolvency Law Academy (ILA) on Emerging Global Insolvency Horizon: Indian Footprint & Front View, February 4, 2023.

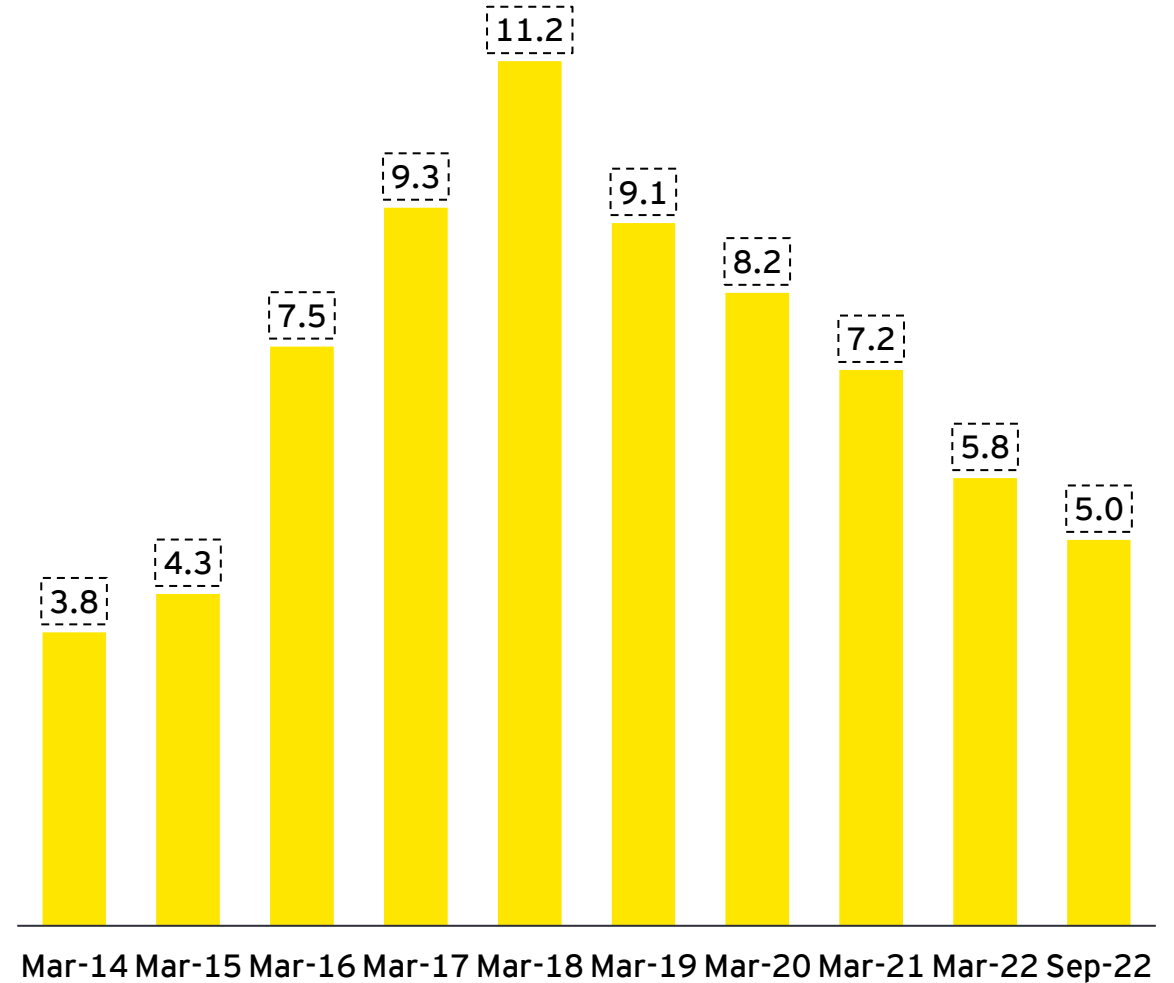
Indian Banking witnessed steep rise in the NPA cases post introduction of AQR

GNPAs in India (INR Lakh Cr)



-	22.8%	89.4%	29.2%	31.6%	-9.9%	-3.9%	-7.2%	-11.0%
Y-o-Y Growth								

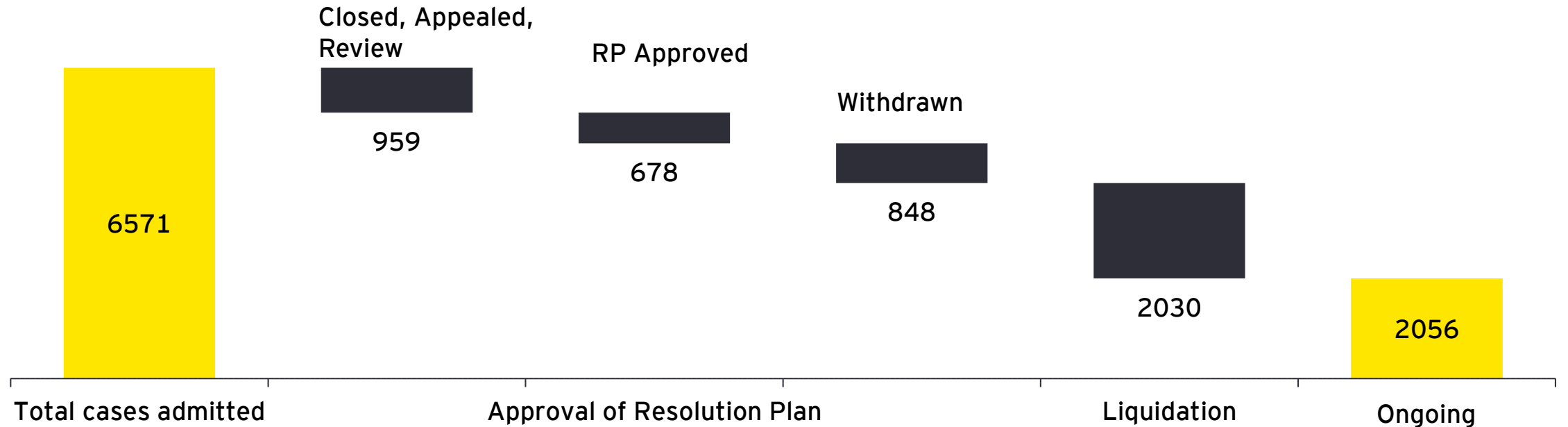
GNPA ratio (%)



* GNPA % and figure are only for schedule commercial banks

Source: RBI Trends & bank report December 2022, RBI Financial Stability Report December 2022

IBC Journey so far



➤ CD was rescued in 2485 cases out of 4515

➤ 959 out of 2485 have been closed on appeal or review or settled

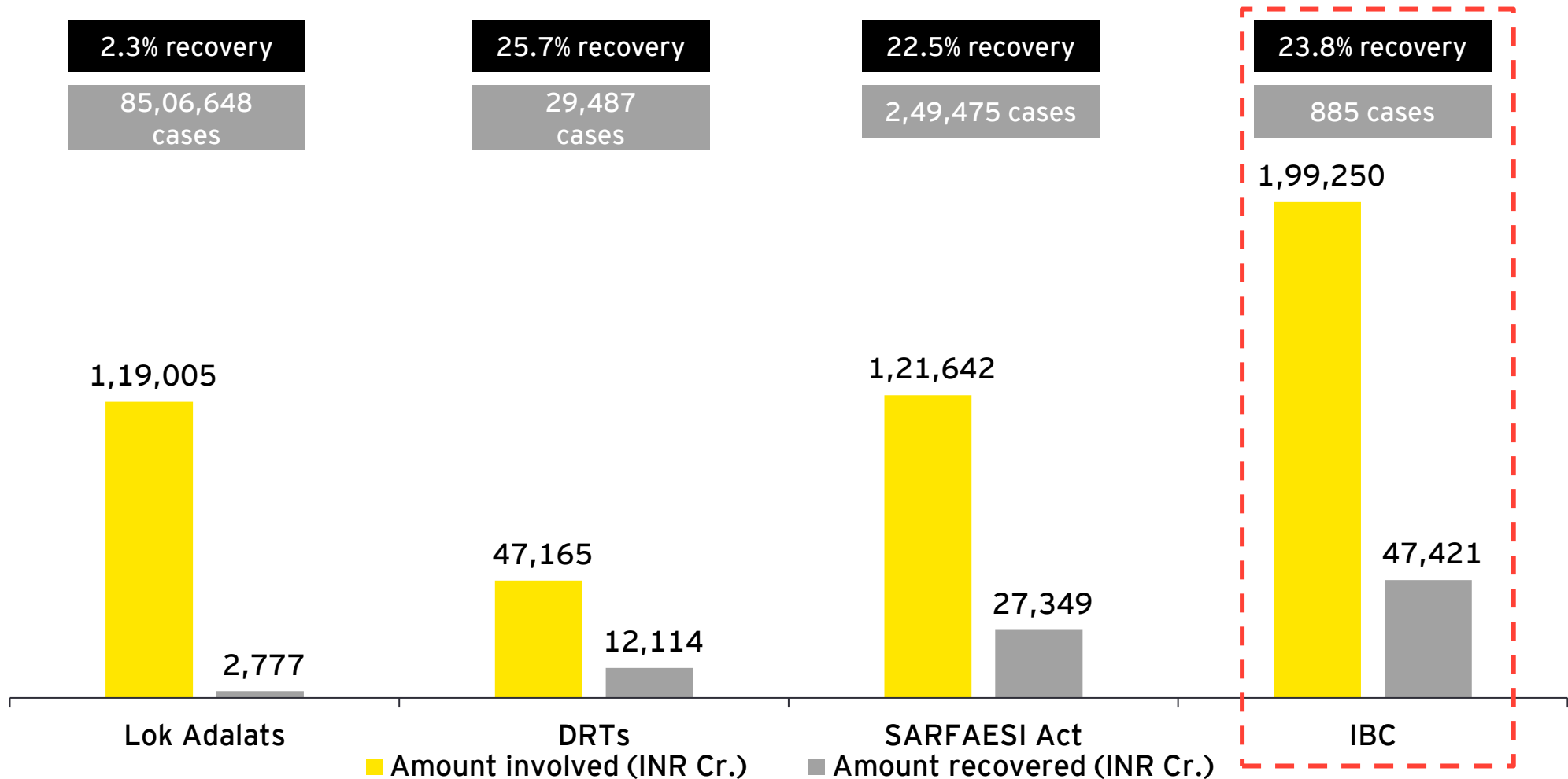
➤ 848 of the rescued CIRPs have been withdrawn

➤ 678 out of 2485 ended in approval of resolutions plan

➤ 2030 of 4199 ended in orders for liquidation

INR 286060 Cr (claim INR 898906 cr) from 678 cases constituting 32% recovery

NPAs of SCBs recovered through various channels in FY22



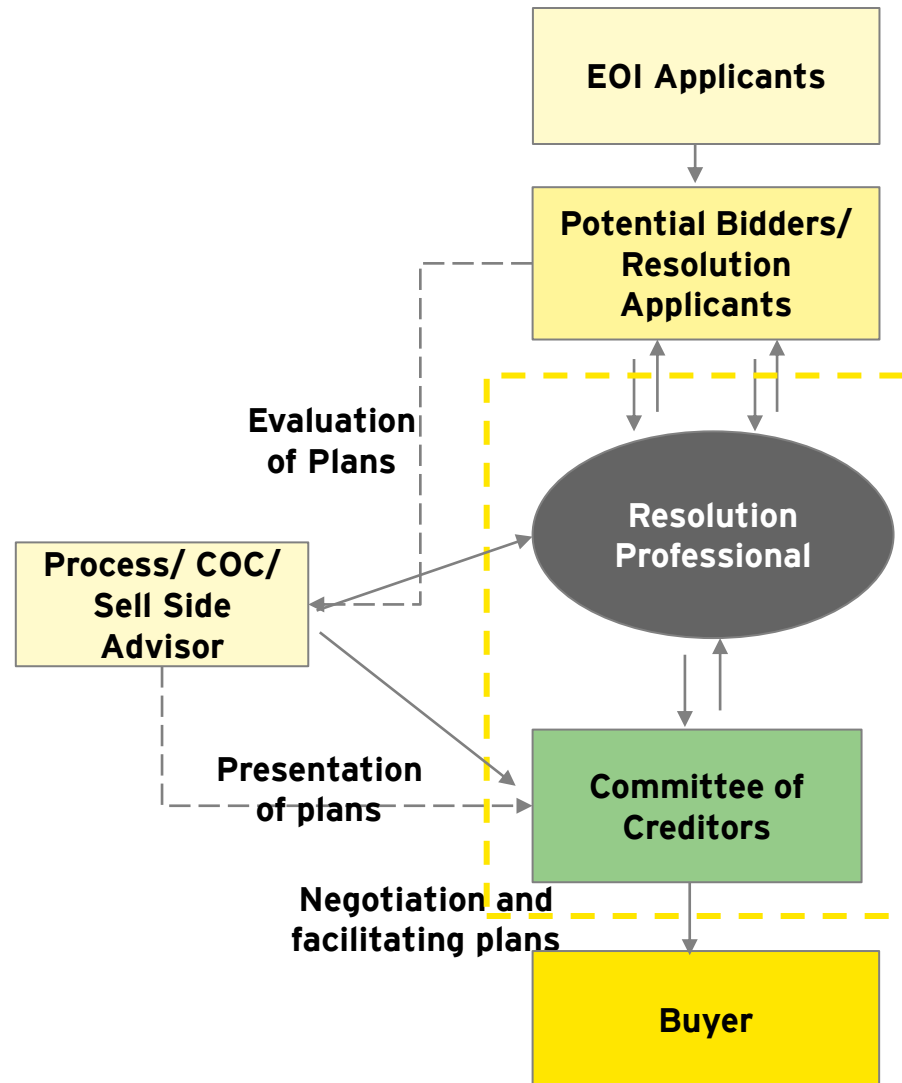
Out of the various channels, the amount recovered is highest through IBC out of the four channels.

Source: RBI Trends & bank report December 2022, RBI Financial Stability Report December 2022



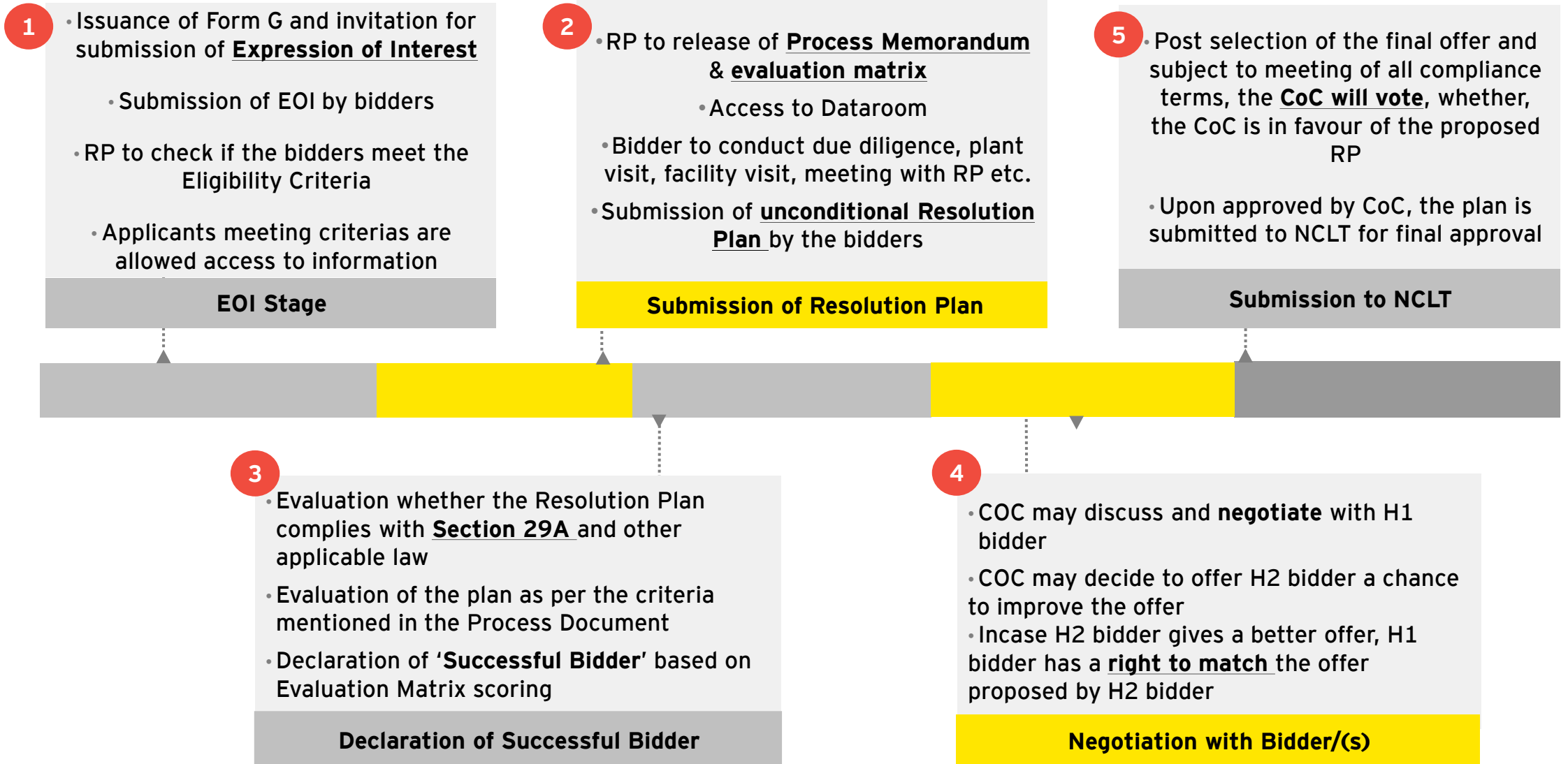
M&A in IBC

M&A Process under IBC



Indicative criteria for evaluation and comparison	<ul style="list-style-type: none"> ▶ Bidder's background ▶ Net Present Value of Cash flows ▶ Key terms of transaction structuring ▶ Implementation measures ▶ Forecasting assumptions
Value add to members of COC	<ul style="list-style-type: none"> ▶ Benchmarking with best governed companies ▶ Insights from seasoned sector specialists ▶ Negotiation bandwidth ▶ Resolving queries of COC members ▶ Transparent and equitable decision making support
Result	<ul style="list-style-type: none"> ▶ Optimal Resolution Plan ▶ Higher recovery to the stakeholders ▶ Visibility on implementation

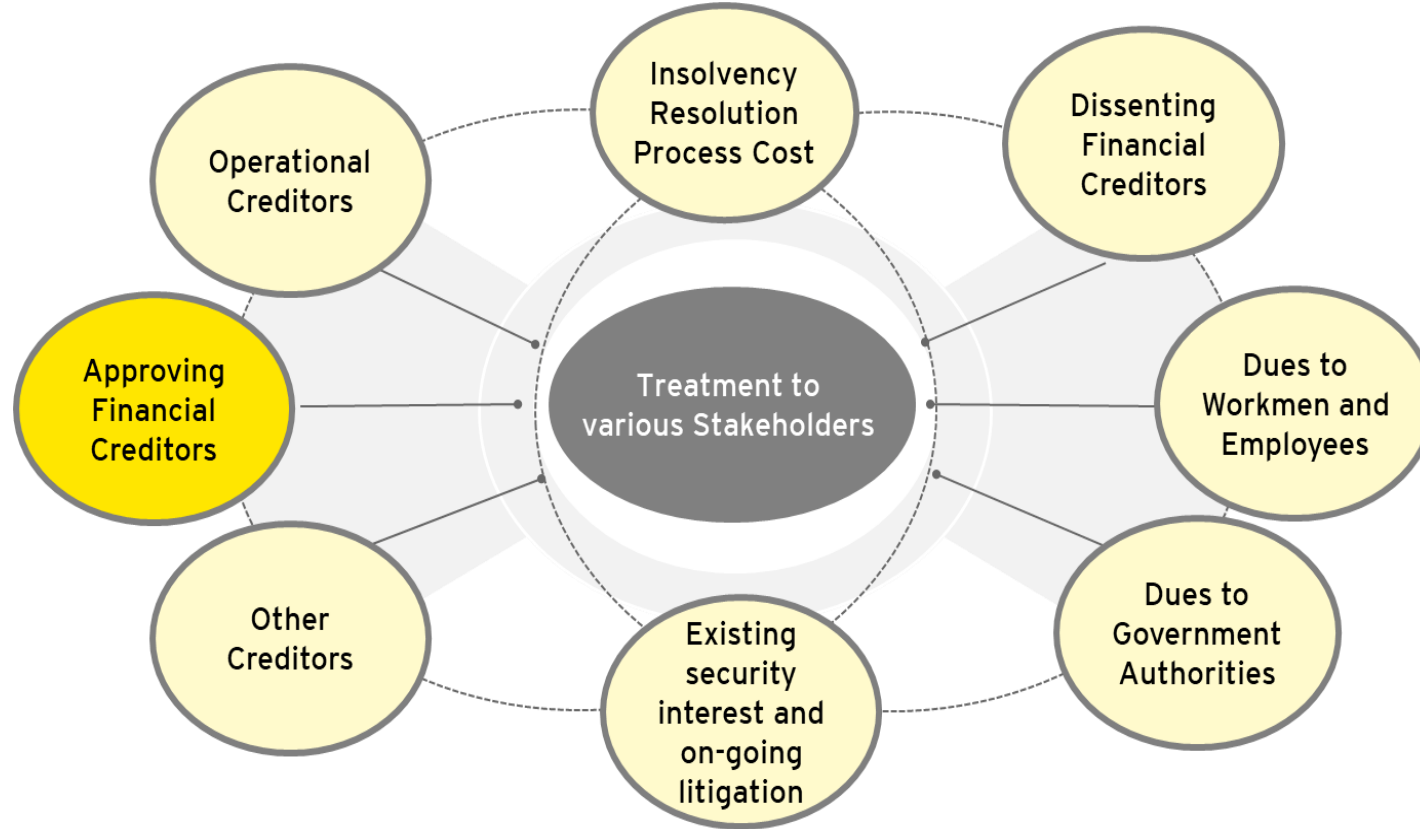
Selection & Evaluation Process of Successful Bidder



Evaluation Matrix : Indicative Format based on IBBI

	Parameter	Max Score
1	<u>Upfront Cash Recovery to Financial Creditors</u> (based on tiered recovery as a percentage of claims admitted)	xxx
2	<u>NPV of total sustainable debt</u> , including upfront cash (based on tiered rate of discount)	xxx
3	Equity allotment and potential <u>equity upside</u>	xxx
4	<u>Upfront fresh equity infusion</u> for improving operations	xxx
5	Recovery to <u>other stakeholder</u>	xxx
6	Reasonableness of financial projections i.e. sales, EBITDA, EBIT, etc./Certainty/Likelihood/Feasibility/Eventuality of honouring proposed commitments and integration plan	xxx
7	Ability to turnaround distressed companies - Managerial competence and technical abilities, key managerial personnel, track record in implementing turnaround of stressed assets etc.	xxx
8	Standing of bidder/group in sector/External Rating/Adherence to financial discipline/record of regulatory compliance/ Whether NPA, including group companies <12 months	xxx
	Grand Total	xxx

Treatment of Various Stakeholders



Factoring other Liabilities :

- Ongoing litigations
- Cross Guarantees
- Collateral Security
- Tax claims
- Lease arrangements

Acquirer strategy:

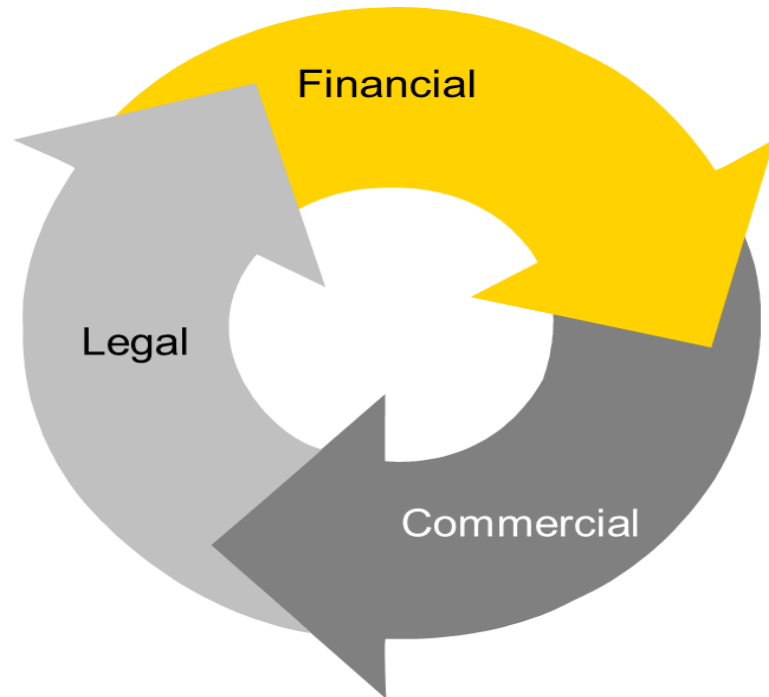
- Listed or Unlisted
- Benefit from accumulated losses
- Group resolution
- Data room findings
- Lender preference

Committee of Creditors (COC) comprising of Financial Creditors having power to vote leads to higher recovery value, resulting in lower recovery for Operational Creditors, *generally*.

A good and successful Resolution Plan addresses not only Financial Creditors but also critical Operational dues to ensure business continuity

Resolution Plan Preparation - Multifaceted approach

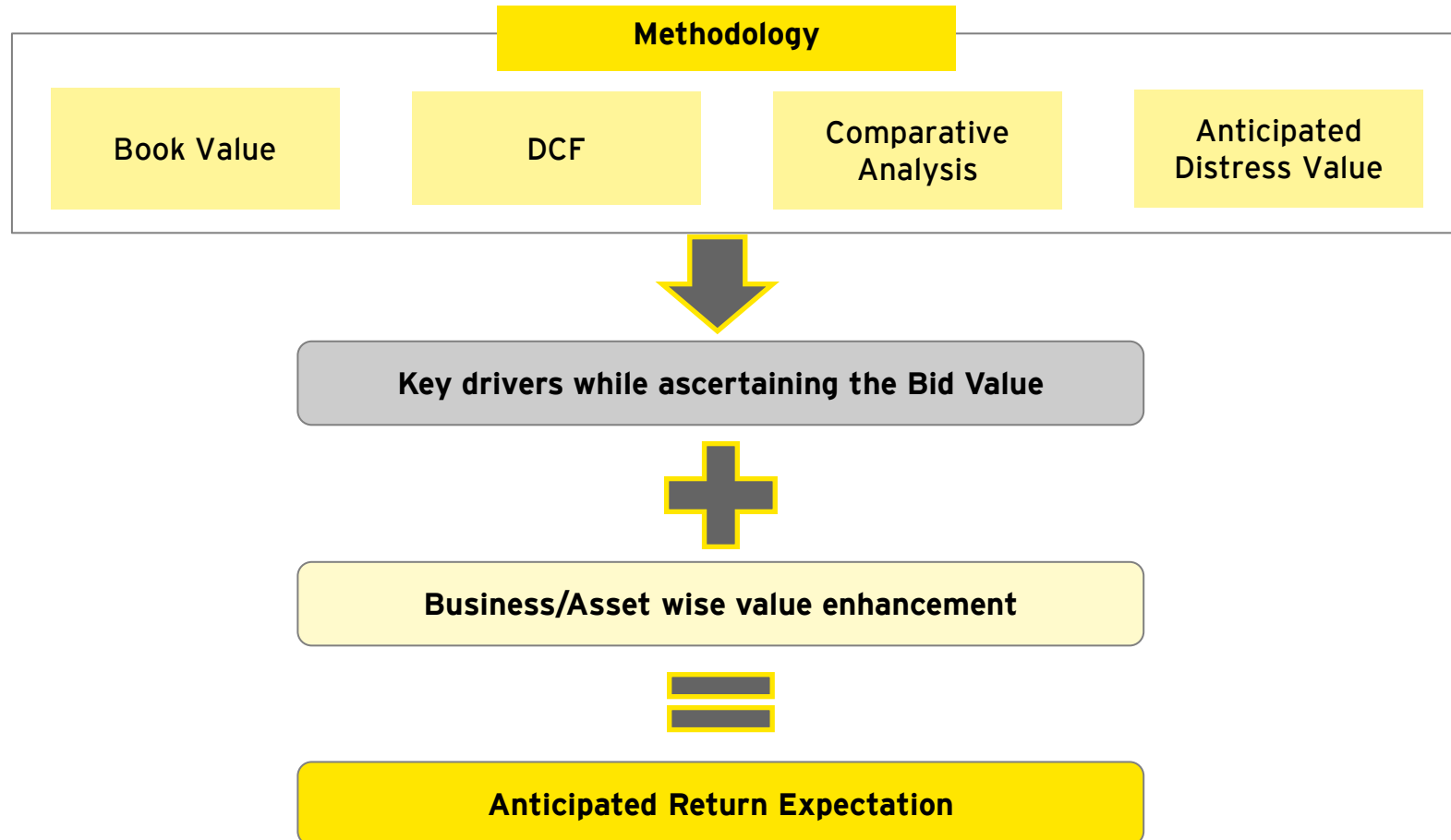
Key considerations while bidding



Plan to qualify as Unconditional as required under the Code

<p>Financial considerations</p>	<ul style="list-style-type: none"> ▶ Prospective value of asset - (a) DCF basis, (b) Replacement Value, (c) Book Value (d)tax benefits ▶ Competitive benchmarking ▶ Maximization of score as per evaluation matrix ▶ Recovery for stakeholders
<p>Commercial considerations</p>	<ul style="list-style-type: none"> ▶ Managing various stakeholders - RP, CoC, disgruntled employees, Operational Creditors Government Dues, Ongoing litigations etc. ▶ Formulation of Turnaround plan ▶ Implementation of the Resolution plan
<p>Legal considerations</p>	<ul style="list-style-type: none"> ▶ Adherence to the Code and process ▶ Assess status of outstanding litigations & implications ▶ Assess prevailing law and its compliance and consequences of non-compliance ▶ Reliefs / concessions and prayers under the plan

Bidding Strategy : Settlement of Liabilities with an eye on expected returns

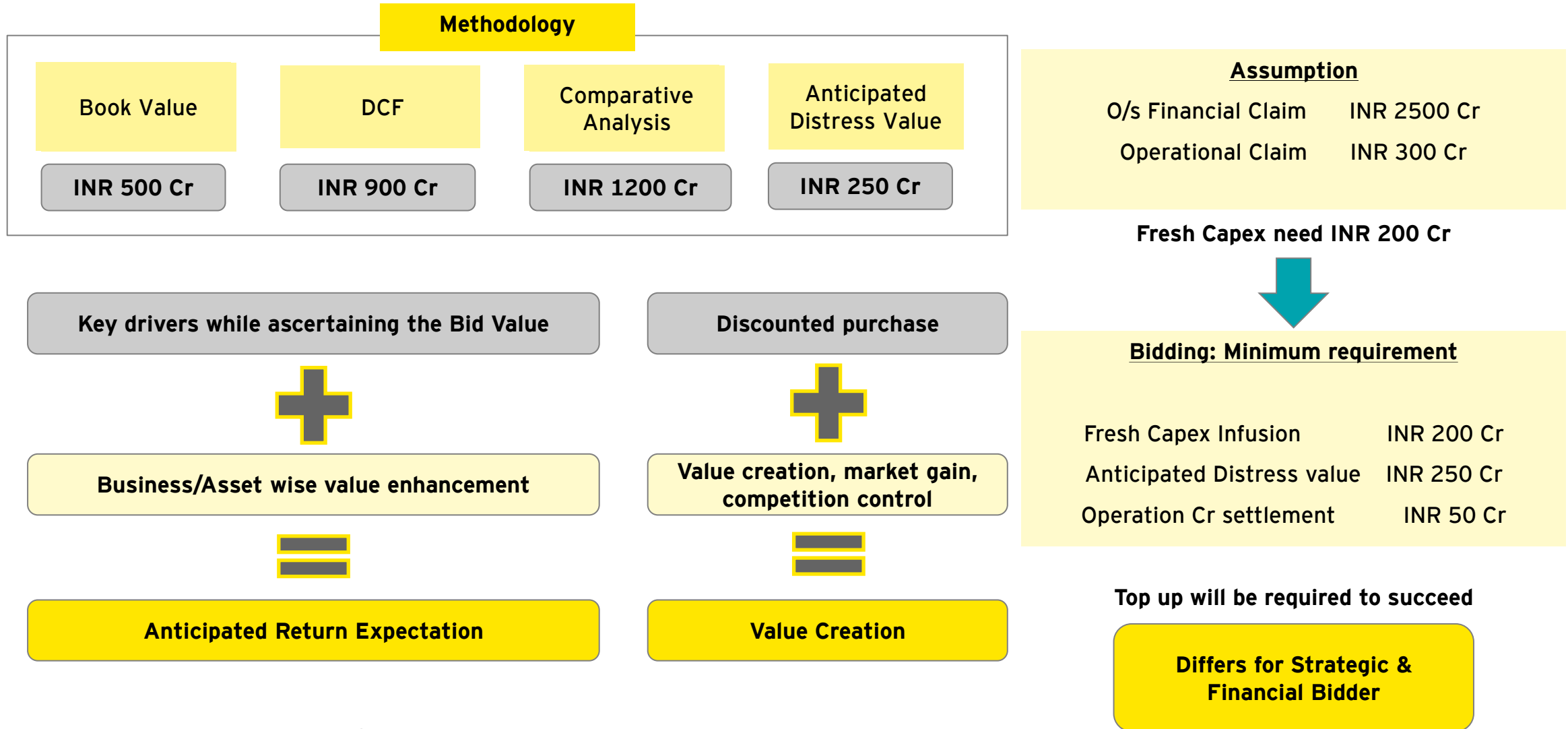


Bidding Strategy - key drivers

- ***Scenario analysis of standalone, carved out businesses , consolidated enterprise value***
- ***Scenario analysis of settlement of liabilities***
- ***Liability discounting (including contingent, potential)***
- ***Discounting to the market multiples (considering business de-growth***
- ***Anticipated lender provisioning, expectation***
- ***Tax adjustments***

Upfront identification of potential Value Enhancement triggers to be crucial to bid strategy

Bidding Strategy illustration





Dirty Dozen cases

The Dirty Dozen Cases

INR in cr

Name of CD	Claims of FCs Dealt Under Resolution			Realisation by all Claimants as a percentage of Liquidation Value	Successful Resolution Applicant
	Amount Admitted	Amount Realised	Realisation as % of Claims		
Completed					
Electrosteel Steels Limited	13,175	5,320	40.38%	183	Vedanta Ltd.
Bhushan Steel Limited	56,022	35,571	63.50%	252	Bamnival Steel Ltd.
Monnet Ispat & Energy Limited	11,015	2,892	26.26%	123	Consortium of JSW and AION Investments Pvt. Ltd.
Essar Steel India Limited	49,473	41,018	82.91%	266	Arcelor Mittal India Pvt. Ltd.
Alok Industries Limited	29,523	5,052	17.11%	115	Reliance Industries Limited, JM ARC
Jyoti Structures Limited	7,365	3,691	50.12%	387	HNI Group led by Mr. Sharad Sanghi.
Bhushan Power & Steel Limited	47,158	19,350	41.03%	209	JSW Limited
Amtek Auto Limited	12,641	2,615	20.68%	169	Deccan Value Investors L.P. and DVI PE (Mauritius) Ltd.
Jaypee Infratech Limited	23,083	20,363	88.22%	114	Suraksha Reality Limited and Lakshdeep Investments and Finance Private Limited
Under Process					
Era Infra Engineering Limited	Under CIRP				
Lanco Infratech Limited	Under Liquidation				
ABG Shipyard Limited	Under Liquidation				



**Dewan Housing
Finance Limited
(‘DHFL’)**

Deewan Housing Finance Limited ('DHFL')

First FSP to get admitted under IBC...

Amounts in INR Crore

- DHFL was a deposit taking housing finance company, having major presence in Tier II and Tier III cities.
- Administrator u/s 45IE (1) of the RBI appointed post RBI filed application in NCLT to initiate CIRP
- Admitted in CIRP On December 3, 2019, the first FSP to be admitted to NCLT.

Large operating base



300+ touchpoints /
branches across India



4.5 lac+ Retail customers



5,000+ employees



~INR 1 lakh Cr++ AUM
(incl. ~32,000 Cr of Off books)
as at CIRP commencement

Diverse creditor mix

- ▶ Lending exposure by
 - ▶ 25 banks across term lending and NCDs and
 - ▶ 10+ FIs with ECB exposure
 - ▶ Public and privately issued NCDs and
 - ▶ Masala bonds held by retail investors and various FSPs (eg. AMCs, MFs, Life Insurance companies and Provident fund Companies) (Over 66,000 NCD holders)
 - ▶ Public depositors ~77000

Legacy issues

- ▶ Inter-creditor issues and legal cases
- ▶ Liquidity constraints led
- ▶ Company had stopped majority lending in 2018
- ▶ Governance issues and investigative actions led to public scrutiny and loss of confidence by the investors, creditors and other regulatory stakeholders

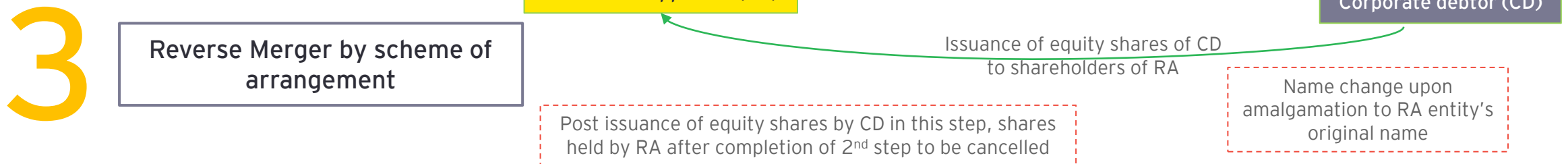
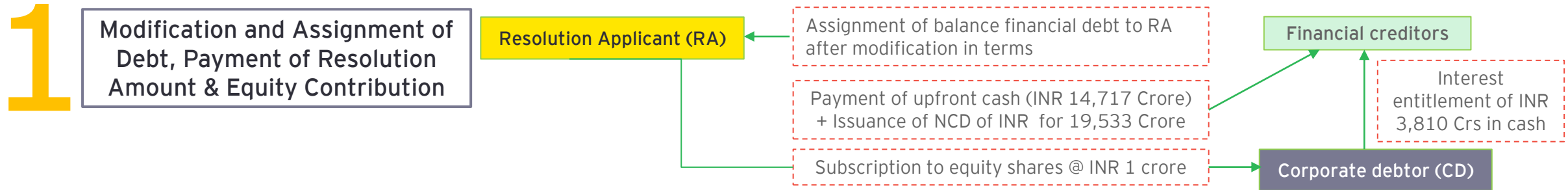
CoC & Asset Book on 3rd Dec' 19

Debt Exposure	O/s	%
NCD holders	46,395	53%
Term Loan	30,599	35%
FD holders	5,375	6%
NHB	2,437	3%
Masala Bonds	903	1%
ECB	1,241	1%
Others (NABARD, IBM)	129	0%
TOTAL FC claims	87,079	100%
	AUM In Crs	
Asset Book		
Retail loans	63,990**	51%
Wholesale Loans	34,053	27%
SRA Loans	12,558	10%
Other assets	15,722	12%
Total	1,26,323	100%

Deewan Housing Finance Limited ('DHFL') Resolution Plan Achieved

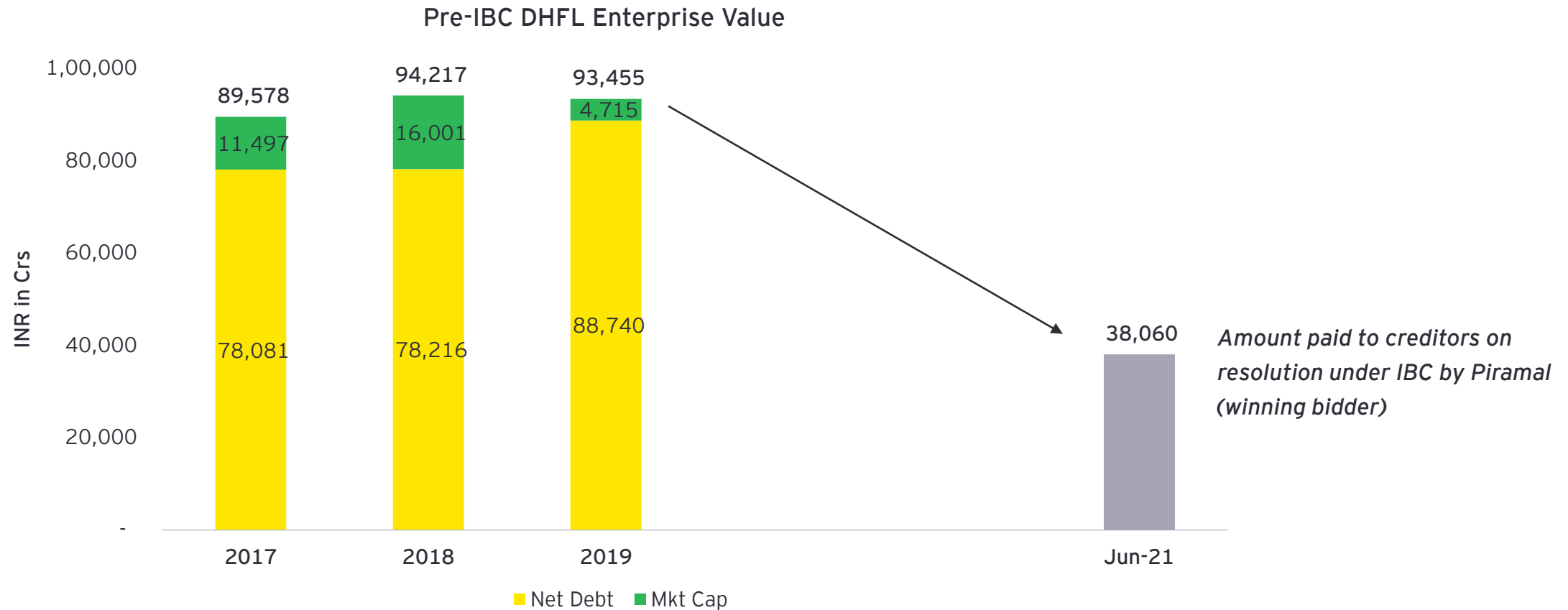
Amounts in INR Crore

- After multiple rounds of negotiations and bidding by Oaktree, Adani and Piramal, Piramal Group emerged as the successful bidder for DHFL
- The resolution plan was approved by NCLT in Jun-21 and implemented by Sep-21
- The creditors were paid an amount of INR 38,060 Cr, thereby leading to ~43% recovery (INR 18,527 Crs. in cash and INR 19,533 Crs. in NCD)



Deewan Housing Finance Limited ('DHFL')

Revised *Enterprise Value* established for the Way Forward



DHFL EV established at ~ INR 38,000 cr against earlier EV of > INR 93,000 cr in 2019

Source for historical EV : CapitalIQ



**Srei Infrastructure
Finance Limited
(‘SIFL’) & Srei
Equipment Finance
Limited (SEFL)**

Together referred to as “SREI”

SREI Background

Amounts in INR Crores

- SREI offered solutions to its customers in Asset Finance & Leasing in the infrastructure sector
- RBI filed application for initiation of CIRP against SIFL and SEFL in NCLT. Kolkata bench of NCLT admitted RBI's applications on 8th October 2021. RBI passed an order superseding the BoD and appointing the Administrator u/s 45IE (1) of the RBI

Large operating base



Presently there are 65+ ranches PAN-India



1 lac+ customers



Currently there are 655+ employees



Exposure of 44+ banks /FIs/ ECB

Total FC Claim is ~INR 32,703 Cr

Loan and Lease Book

- Loan assets as on 31st Dec'22 are as under:

Gross Loans	30,086 Cr
Less: Provisions	18,248 Cr
Net Loans	11,838 Cr

- Of the above ~27,883 crores are classified as Stage 3 - NPA
- Further, the sectoral split of the loan book (in %) is as under

Construction/ EPC	26%	Real Estate	17%
Transport/ Logistics	12%	Energy	14%
Social/ Comm infra	9%	Mining	9%
Others	13%		

- In addition to the above, SREI has a lease book of ~INR 1,113 Cr across the following segments



Machinery ~INR 690 Cr



Earthmoving ~INR 215 Cr



Vehicles ~INR 129 Cr

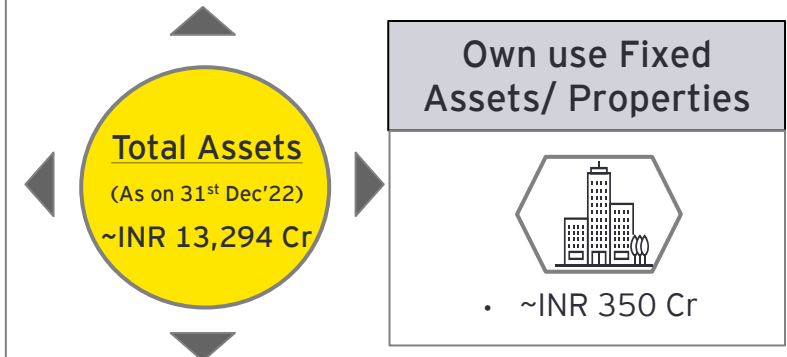


Others ~INR 79 Cr

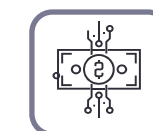
Gross Investments



- Equity Instruments - ~INR 379 Cr
- Debt Securities - INR 621 Cr
- Units of Trust - ~INR 289 Cr



Other Financial and Non-Financial Asset



- Claims receivable - INR 622 Cr
- Reposed Asset - ~INR 219 Cr
- Others - ~INR 170 Cr

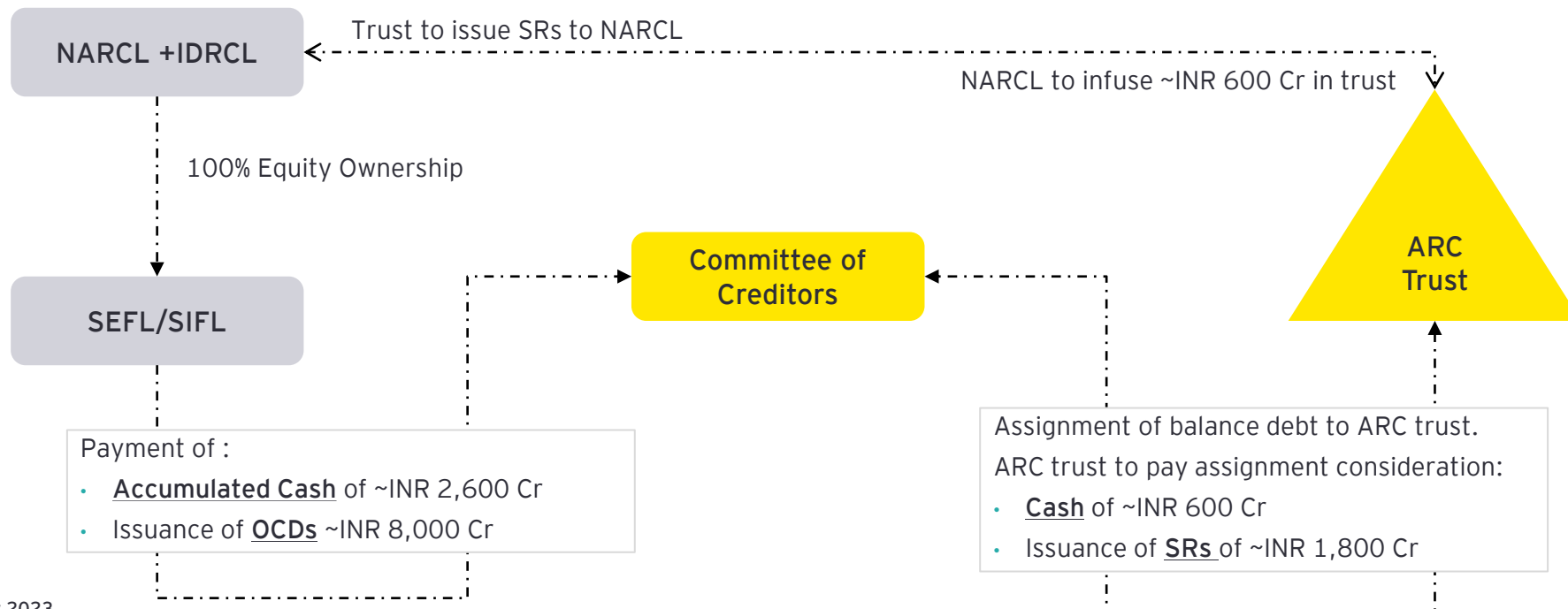
SREI

Resolution Plan Approved by Committee of Creditors

Amounts in INR Crore

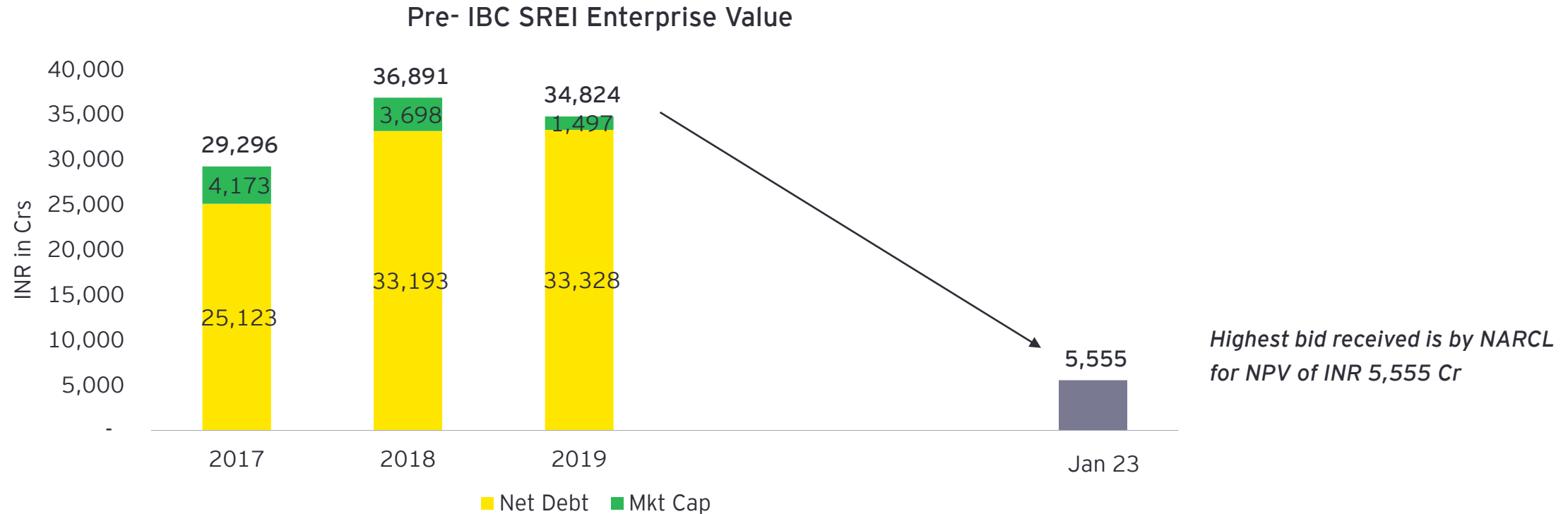
CoC Approved Resolution Plan

- National Asset Reconstruction Company Limited ('NARCL') was declared the winner basis the winning bid having the highest NPV through a well defined Price discovery process (evaluation matrix) in various rounds
- The resolution plan of NARCL was approved by majority voting by the CoC on **February 15, 2023**
- NARCL's resolution plan entails the following recoveries to CoC on a gross basis totalling to ~INR 15,000 Cr in the form of :
 - Total Upfront Consideration of ~INR 3,200 Cr (Cash Infusion : INR 600 cr + Accumulated cash INR 2600 Cr)
 - Economic benefit of ~INR 3,500 Cr with the issuance of Security Receipts of ~INR 1,800 Cr and
 - Optionally Convertible Debentures of ~INR 8,000 Cr



SREI

Revised *Enterprise Value* established for the Way Forward



The reasons for loss of Enterprise Value are as under:

- Large number of cases of lending at preferential terms
- Concentration of loan book in large ticket project finance borrowers with timing uncertainty of project completion
- Lack of security coverage/ collateral provided by the borrowers
- Difficulty in valuation of cases under litigation/ arbitration

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