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"Corporate Debt Restructuring: A Knight in Shining Armor"

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Abstract:

Arvind Projects Limited (APL) was doing fairly well and generating profits till the end of FY 2012, and the accounts with all the lenders were conducted more or less satisfactorily. The company had been enjoying various credit facilities (fund based and non fund based) from a consortium led by IDBI Bank Ltd. (IDBI). The company had also been enjoying Term Loans from various NBFCs and banks. Total fund based limits (including TLs) aggregating to Rs. 747.66 Cr and non Fund based limits aggregate to Rs. 720.00 Cr. had been enjoyed by the company. The problems started surfacing during early FY 2013 and the Company felt it difficult to service interest and installments of TLs due to non/delayed realization of receivables, non/delayed completion of contracts due to legal and technical hurdles, increased cost, increased competition, liquidity crunch etc. Mr. Arvind Mehta, Chairman and Managing Director and Mr. Nikunj Patel, Vice President (Finance and Accounts) were worried regarding the options available to get rid from such financial crunch the company faced first time since its inception. They found Corporate Debt Restructuring as a knight in shining armor for coming out of vicious circle of huge of amount of liability due to various banks and NBFCs.

Keywords: Corporate Debt Restructuring, knight in shining armor, financial crunch, overdue loans

Introduction:

Arvind Projects Limited (APL) was doing fairly well and generating profits till the end of FY 2012, and the accounts with all the lenders were conducted more or less satisfactorily. The company had been enjoying various credit facilities (fund based and non fund based) from a consortium led by Indian Financial Bank Ltd. (IFBL). The company had also been enjoying Term Loans from various NBFCs and banks. Total fund based limits (including TLs) aggregating to Rs. 747.66 Cr and non Fund based limits aggregate to Rs. 720.00 Cr. had been enjoyed by the company. The problems started surfacing during early FY 2013 and the Company felt it difficult to service interest and installments of TLs due to non/delayed realization of receivables, non/delayed completion of contracts due to legal and technical hurdles, increased cost, increased competition, liquidity crunch etc. Arvind Mehta , Chairman and Managing Director and Nikunj Patel, Vice President (Finance and Accounts) were worried regarding the options available to get rid from such financial crunch the company faced first time since its inception.

APL had vast experience of executing following types of Engineering and Construction Projects:

Cross country pipelines, Refineries, Process and Power Plant, City Gas Distribution, Water Supply & Sewerage Systems, Horizontal Directional Drilling (HDD), Micro Tunneling, Onshore & Offshore Fabrication, Bulk Storage Tank, Civil and Structural Construction, Cathodic Protection.

The major clients of the APL were government and quasi government companies like Oil and Natural Gas Corporation Limited, Indian Oil Corporation Limited, Gujarat State Petronet Limited, Karnataka Urban Water Supply and Drainage Board, Maharashtra Natural Gas Limited, etc.

The major competitors of the APL emerged during last one decade in EPC contractor included Larson & Toubro Limited, Punj Lloyd Limited, etc.

Arvind Projects Limited's (APL) business history traced back to 1974, making a small beginning as Sole Proprietorship firm in the name of Arvind Welding Works by Late Mr. Mohandas Mehta. After consolidating the business activities, he build a team of technocrats and engineers and transformed the activities to focus and take on medium to large size infrastructure projects in the Oil and Gas Pipeline projects. Then facing competition from major engineering firms, slowly holding grip to the activities, APL was registered as a private limited company on 13th March 1983, under the Indian Companies Act 1956; and later on gained the Public Limited status on 12th December, 1992.

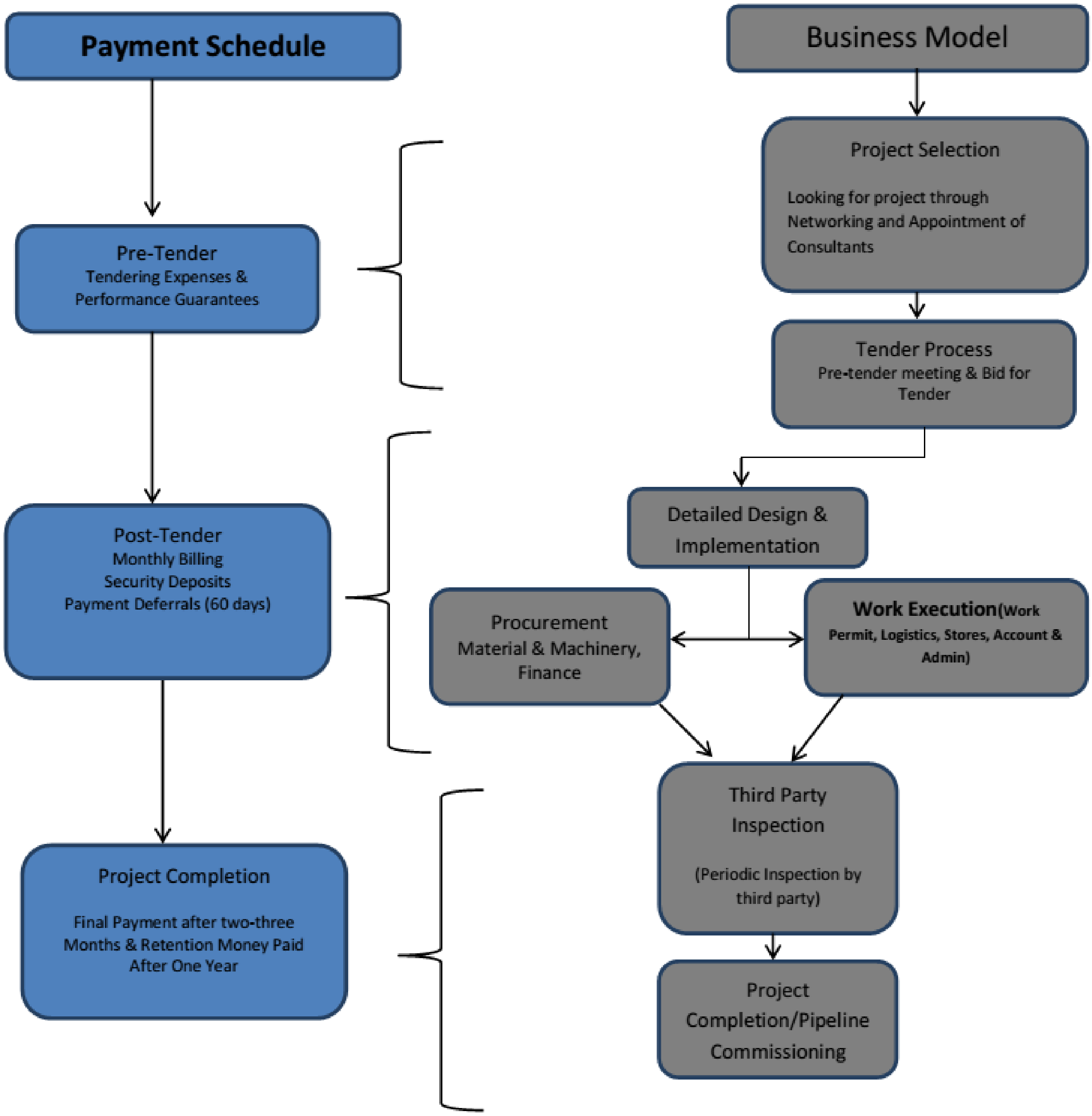
It was a period of focused developments both in the agriculture and industrial sectors. And this needed the development of supporting infrastructure facilities. Hence, the post independence era saw considerable economic and industrial development; naturally requiring to build the infrastructure facilities like roads, energy, port developments, railways to support the economic development system. Being in existence during those periods, APL has, over the years, transformed itself into one of the well known contractors of India closely associated to the facets of all those development actives. Today, it is acknowledged as a Company that continues to empower pipeline infrastructure development within the country. It has now presence in India and across the boundaries.

Major Milestones achieved by the Company :

(1) The Company's reported recognition as the fastest growing Construction Company in 2009.
(2) Niche Player in EPC segment with about 5 decades of experience.

(3) It has a customer base of over 50 Government and Quasi Government Organizations within India and abroad on Hydrocarbons, Water and Infrastructure Projects.
(4) APL has laid over 18,000 Kilometers of Pipelines in India which claims to be the highest in the country.
(5) APL has adopted ISO 9000-2000 Certified Quality Management system since 2001.
(6) It has also the ISO 14000-2004 Environment Management System Certification for the Company.
(7) It also implemented OHAS 18000-2007 Occupation Health and Safety Management System (An essential requisite for an infrastructure Builder)

Business Model :



Nikunj handed over a letter received from lead bank of consortium stating that drawing power based on the stock statement as on 31-12-2012 has gone down to Rs. 285.10 Crore (Exhibit 1.1) against the sanctioned limit of Rs. 450 Crore and Irregularity in CC account to the tune of Rs. 63.30lacs due to devolvement of LCs during September 2012 to December 2012 making the total overdue of Rs. 228.20 Lacs in working capital. Nikunj also briefed Arvind that in addition to the above Rs. 39.28 Crores (due to devolvement of LCs) and Rs. 25.56 Crore (due to invocation of BG)(Exhibit 1.2) would be due in January and February 2013. So, the company would need Rs. 293.04 Crore liquid funds on an urgent basis.

Arvind surprised on getting a reply from Nikunj that the company was unable to pay the above amount due to the liquidity crunch faced by the company and asked him why such situation has arisen evenif they were having works contract on hand to the tune of Rs. 2483.70 Crores (Exhibit 1.3) Nikunj explained the following reasons responsible for the liquidity crunch.

Reasons for Liquidity Crunch:

(1) In one of the biggest project of the company i.e. XYZ which was awarded by Gas Authority of India (GAIL), valuing approx. Rs. 200 cr has been delayed because of the clearances relating to Right of use and Right of work increasing burden of work in process (WIP).
(2) WIP to the tune of Rs. 223.28 due to non availability of clearance from the ministry of Defense and long time than expected in completing the procedure for land acquisition / conversation of land into N.A.
(3) In another two major projects of our company i.e. ABC and Delhi Faridabad pipeline (DFPL), both being worth Rs. 400 Crores each, even though the projects were completed in 2010 & 2011 respectively but funds of Rs. 90 cr is due from the clients.
(4) Even increased interest cost has burdened the company with more financial cost.
(5) Company's monopoly situation affected by the entry of Punj Lloyd in Indian Pipe laying Industry, along with this L& T, Fernas, Kalaptaru, Fabtech & Essar have also started focusing on the pipeline division along with few international companies who have entered the Indian Market.
(6) Clients like Government / semi Government or public sector giants are also facing liquidity crunch.
(7) APL had installed a solar power plant during FY 2011-12 at a cost of around Rs 152.00 Cr. Though the company has availed term loan of around 112.00 cr from XYZ Bank Ltd. Rs. 40 Cr. invested out of the internal funds, this also put some pressure on the working funds available with the company.

On understanding the reasons, Arvind worriedly looked at the Nikunj expecting a solution from him to come out of financial crisis. Nikunj suggested to make an application for debt restructuring with the bank and financial institutions requesting them to convert the irregular portion of working capital in to WCTL (Working Capital Term Loan) and also to convert the interest payment on such WCTL for first two years in FITL (Funded Interest Term Loan) (Exhibit 1.4). We should also request the bank to grant us a moratorium of two years from interest payment on existing working capital loan and proposed WCTL and charge the interest only on FITL. We should further request bank to grant us lower rate of interest for first 3 years and then normal rate of interest for the residual period of CDR package and grant the total repayment period of 10 years for above loans.

Arvind inquired (with doubts in his mind) that why banks would agree to the above proposal of debt restructuring as proposed by us. Nikunj confidently replied that looking to our past financial performance (Exhibit 1.5), long term relationships with banks and regular repayment in past, contracts expected to be received (Exhibit 1.3), Contracts expected to be executed (Exhibit 1.3), future projected Financial Performance (Exhibit 1.5), Banks would help us in passing through difficult time.

Arvind also asserted that looking to the following future prospects, the above projections seems to be achievable.

Future Prospects

The future of the industry is very bright as per the reported statement of PTI on 23rd March 2010 of our honorable Prime Minister reportedly stated that "aiming at an annual 10% growth, the investment in infrastructure sector should be doubled to an ambitious US$ 1 trillion (Rs. 41 lakh crore) during the 12th Five Year Plan ending 2017 from the current level. This is four times than that envisaged in the Xth Plan and doubled from the XIth plan. "

The economic development of the any country is based on the availability of infrastructure facility so the government of India has initiated measures to boost development through private sector participation scheme and the annual investment of about Rs. 8,20,000 crore is expected. And the focus sectors for the development are Road, Exploration of Oil and Natural Gas, development of airports, ports.

Committee on infrastructure has initiated several policy measures for the creation of world class airports in India and building unique green field class international airport in Metro city similarly to ensure balanced airport development around the country a compehencive plan for the development of other 35 non metro airports is also under preparation which will spure the investment of 40,000 crore.

Road development is considered essential for sustained economic growth and as India has the dearth of road connectivity compare to other nations like USA, Canada, Japan and Germany as can be seen from the table below:

Country	Total Lenth of National Highways in Kilometers	Availability per 1000 Kilometers
SA	3,51,428	1.4
Canada	1,03,000	3.1
Japan	61,730	0.49
India	70,548	0.069
Germany	53,010	0.64

So there is vast potential for development in this sector even government has planned to increase their expenditure on road development substantially by public private partnership. Several high traffic stretches have been already been awarded to private companies on a BOT basis. And the development of Golden Quardrilateral and NSEW projects are long term projects which will provide EPC Engineering Contractors for different kind of development work.

Apart from these two, the Oil and Natural Gas Sector will also favor APL as the ministry of petroleum and natural Gas has been asked to submit papers for open access policy on oil and gas permitting non discriminatory access and to draft PPP policy even it has been reported by petroleum secretary on financing of oil and gas pipeline infrastructure during 12th Five Year plan that an investment of Rs. 58,829 crores forth coming.

After listening to Nikunj carefully arvind was in dilemma whether to consider credit debt restructuring as a knight in shining armor?

Questions:

1. Prepare a proposal for credit debt restructuring on behalf of APL.
2. Whether the CDR will prove a boon to APL or not?
3. Do you agree with the Nikunj's argument for the future growth or future prospects of APL.
4. As a financier advisor to APL do you think that is there any other option available for APL?

Exhibits:

Inventory	Amount (Rs in Crore)
Raw material and Spares	68.94
Work in Process	127.46
Total Inventories	196.4
Less: Trade Creditors	(64.12)
Paid Stock	132.28
Debtors	
Domestic Debtors (up to 270 days)	267.18
Less: Mobilisation Advances	(64.06)
Eligible Debtors for DP calculation	203.12
Total Current Assets for DP	335.4
Less: Margin on Inventories (15%)	(19.84)
Less: Margin on Debtors (15%)	(30.46)
Drawing power	285.1

Exhibit 1.1

Name of the bank	Anticipated LC Development	Anticipated BG invocation	Total WCTL

The turnover and overall performance for current	Jan 13	Feb, 13	Total	Margin	WCTL	BG amount	Margin	WCTL	
IFBL bank	3	6.52	9.52	0.96	8.56	5.76	0.58	5.18	13.74
Southern bank	2.7	7.54	10.24	1.02	9.22	0	0	0	9.22
Regional Bank	0	0	0	0	0	5.04	0.5	4.54	4.54
Bharat Bank	12	0	12	1.2	10.8	10.5	1.06	9.44	20.24
Bank of Gujarat	3.22	4.3	7.52	0.76	6.76	4.26	0.42	3.84	10.6
Total	20.92	18.36	39.28	3.94	35.34	25.56	2.56	23	58.34

Exhibit 1.2

DETAILS OF WORKS CONTRACTT ON HAND/UNDER EXECUTION						
Sr. No.	**Project Name/Description**	**Client Name**	**Location**	**Final Contract Value (Ex. Tax)**	**Value Executed Till June 2012**	**Balance Value of Contrac**
In Other Countries						
1	ABC Gas Pipeline Project	Ethiopian Gas Company Ltd.	Ethiopia	120	81.06	38.94
2	Raticulation Nigeria	Ethiopian Gas Company Ltd.	Ethiopia	2	0.42	1.58
3	Saudi Arabia	BRCC	KSA	629.08	107.12	521.36
4	ArcheePetroleum LLC L1	Archee Petrolium LLC	Oman	98	-	98
5	Ethiopian National Petrolium Corporation Ltd	ENPCL	Ethiopian	25	-	25
In India						
6	ABC Project PCK 2A	BRWSS	Banglore	95.38	67.48	27.9

7	Hurry Pipeline Installation Works	Tributary Pellets Ltd	Keonjhar-Odisha	133.5	133.5	-
8	Hurry Pipeline & Reclaimed Water Pipeline Project	Tributory River Pellets Ltd	Keonjhar-Odisha	57.6	52.1	5.5
9	FESW	Tributory River Pellets Ltd	Keonjhar-Odisha	23.92	16	7.92
10	Hurry Pipeline Installation Balance Works	Tributory River Pellets Ltd	Keonjhar-Odisha	5.1	5.1	-
11	Header Project	IPOL	Paradip-Odisha	23.68	11.78	11.9
12	NAIl	NAIL India Limited	Saharanpur	199.26	201.08	-1.82
13	TGL	Bhatt Gas Ltd.	Hyderabad	44.48	38.74	5.74
14	Souethern	South Petrolium Corporation Ltd.	Cochin	25.48	24.56	0.92
15	Hail Project1	HAIL India Limited	Chainsa	22.44	23.28	-0.84
16	Hail Project 2	HAIL India Limited	Chainsa	1.64	0.78	0.86
17	Hail Project 3	HAIL India Limited	Kaliaras	1.66	0.74	0.92
18	Hail Project 4	HAIL India Limited	Kochi, Kottanad-Banglore, Manglore, India	64	59.18	4.82
19	GTRS Project	HSPC Ltd.	Surat, Ankleshwar, Palsana	13.4	13.04	0.36
20	Ceramic Project	HSPC Ltd	Morbi	0.84	0.48	0.36
21	Ceramic Project 2	HSPC Ltd	Morbi	1.08	1.22	-0.14
22	Ceramic 3	HSPC Ltd	Morbi	0.12	0.04	0.08
23	Kutch Project	HSPC Ltd.	Morbi	2.48	2.08	0.4

24	Ceramic 4	HSPC Ltd.	Morbi	1.32	1.32	-
25	Gas Project 1	HSPC Ltd.	Morbi	7.88	4.44	3.44
26	APCL 1	Maratha Ltd	Pune	36.1	23.58	12.52
27	APCL 2	Maratha Ltd	Pune	5	3.84	1.16
28	Assam 1	Luit Ltd	Assam	86.08	74.86	11.22
29	Assam 2	Luit Ltd	Assam	52.52	32.6	19.92
30	Assam3	Luit Ltd	Assam	30.6	2.34	28.26
31	Assam 4	Luit Ltd	Assam	87.8	28.5	59.3
32	Assam 5	Luit Ltd	Assam	48.86	19.98	28.88
33	Assam 6	Luit Ltd	Assam	58.52	25.24	33.28
34	IPL Project	IPL Ltd	Chennai - Bangalore	18.26	9.26	9
35	South Project 1	Mangalore Refinery & Petrochemicals Limited	Mangalore	45	32.92	12.08
36	MLTS	Heavy Electrics Ltd	Mangalore	24.28	13.84	10.44
37	South project 1	Kanyakumari Ltd	Nanjangud	15.02	13.6	1.42
38	South project 2	Kanyakumari Ltd	Pandavpura	9.8	9.26	0.54
39	South project 2	Kanyakumari Ltd	Srirangpatna	8.06	7.72	0.34
40	Sea Side Project 1	Goa Ltd	Rajkot	10.04	3.74	6.3
41	Sea Side Project 2	Goa Ltd	Satara	6.2	5.3	0.9

42	Sea Side Project 3	Goa Ltd	Ramand	3.62	2.76	0.86
43	Sea Side Project 4	Goa Ltd	Vijaywada	5.54	5.6	-0.06
44	Sea Side Project 5	Goa Ltd	Mehsana	1.46	0.66	0.8
45	Sea Side Project 6	Goa Ltd	Goa	75.6	-	75.6
46	Sea Side Project 7	Goa Ltd	Angul-Odisha	35.94	1.5	34.44
47	Ash Slurry Pipeline from BSL Plant Meramandali to Open Cast Mines of MCL Coal Field	Bhusan Steel Ltd.	Angul-Odisha	55	-	55
48	North east Project 1	Seven Sister Ltd	Morbi	7.06	-	7.06
49	North east Project 1	Seven Sister Ltd	Rajasthan	82	-	82
50	North east Project 1	Seven Sister Ltd	Assam	76	-	76
	Total			**2483.7**	**1162.64**	**1321.06**

Exhibit 1.3

(Rs. in cr.)										
Name of the bank	cc limit	WCTL I	WCTL -II	FITL	Term Loan	FB Limit	LC limit	BG limit	NFB Limit	TOTAL
IFBL Bank	75.64	56.02	13.74	27.22	0.00	172.62	26.64	128.02	154.66	327.28
Southern Bank	50.02	65.62	9.22	24.04	0.00	148.90	6.80	98.48	105.28	254.18
Regional of India	43.02	16.34	4.54	17.22	27.08	108.20	20.42	53.74	74.16	182.36
Bharat Bank	53.90	40.64	20.24	21.74	0.00	136.52	0.34	78.56	78.90	215.42
Bank of Gujarat	62.52	49.56	10.60	23.02	0.00	145.70	9.80	117.20	127.00	272.70
Infrastructure	0.00	0.00	0.00	16.86	80.32	97.18	0.00	0.00	0.00	97.18

Bank										
TOTAL	285.10	228.20	58.34	130.12	107.40	809.14	64.00	476.00	540.00	1349.14

Exhibit 1.4

Year	2010	2011	2012	2013	2014	2015	2016	2017
	Audited	Audited	Audited	Est.	Proj.	Proj.	Proj.	Proj.
Contract Receipt	818.56	871.46	1043.12	578.44	705.42	873.24	1086.00	1311.00
Power Income	0.00	0.00	0.00	18.90	21.60	21.60	21.60	21.60
Total revenue	818.56	871.46	1043.12	597.34	727.02	894.84	1107.60	1332.60
Gross Profit	218.00	199.28	214.26	87.46	112.70	147.22	186.84	228.82
EBIDTA	162.16	170.66	203.42	105.04	121.88	152.10	185.88	218.84
EBIDT A/Sales %	0.40	39.16	0.39	35.16	0.34	0.34	0.34	0.33
Interest	75.46	81.30	114.70	116.36	113.06	111.82	119.70	124.46
Depreciation	9.84	12.00	15.32	35.18	35.70	35.84	35.92	35.92
Operating Profit	93.66	85.16	43.88	-53.88	-30.84	0.48	23.70	51.92
Op. profit/Sales	0.23	0.20	0.08	-0.18	0.08	0.00	0.04	0.08
PBT	76.88	77.36	73.40	-82.50	-26.86	4.44	30.24	58.48
Net Profit	54.86	55.84	71.86	-82.50	-26.86	3.58	24.36	47.10
Cash Accruals	64.70	67.82	87.18	-47.32	0.39	39.42	60.28	83.02
Gross Block	240.06	274.92	487.42	499.42	501.42	503.42	503.42	503.42
Net Block	208.70	232.86	432.38	409.20	375.50	341.66	305.76	269.84
Capital	26.82	43.00	19.52	19.52	19.52	19.52	19.52	19.52
TNW	169.66	236.14	275.98	196.04	171.76	177.92	202.28	249.36
DER	1.10	0.62	2.10	6.34	7.60	6.98	5.60	3.94
TOL/TNW	7.40	8.70	10.74	12.30	15.06	14.16	12.86	10.90

FACR	4.50	6.42	2.98	1.32	1.14	1.10	1.08	1.10
Current Ratio	1.90	1.82	1.86	2.62	2.96	3.16	3.10	2.94
CR excl. TL inst.	2.12	1.92	1.90	2.82	3.24	3.50	3.48	3.30

Exhibit 1.5