

Defaults, Admissions & Recoveries - Quarterly Flash

1Q 2019 insights on
default conundrums,
performance
analysis of CIRPs
and recoveries in
India

May 2019

Foreword

“Measured by post-default trading prices, the issuer-weighted average recovery rate for senior unsecured bonds (across the globe) was 53.9% in 2017, up sharply from 31.5% in 2016, reflecting higher recoveries in distressed exchanges and improved recoveries in commodity sectors” – Moody’s report, Annual Default Study: Corporate Default and Recovery Rates, 1920 – 2017, dated February 2018.

The agency also noted that the long-term recovery average for senior unsecured bonds across the globe (with majority, 90%+, of the rated issuers being in the US & Europe) was circa 38%.

Against this background, we note that the average recoveries of c.43% for financial creditors on cases which yielded resolution under Corporate Insolvency Resolution Process (CIRP) with Insolvency and Bankruptcy Board of India (IBBI), since the inception in December 2016 until March 2019 is a good start and bodes well for the future of debt market in India. The regulatory body also mentioned that the recovery values via the resolution process were approximately 1.9x more than the liquidation values computed for such companies.

In this quarterly publication, we aim to present the insights on defaults and recoveries. Further, we have discussed the status of each of the 12 Big Accounts under the Insolvency Bankruptcy Code (IBC).



QUICK UPDATES ON CIRPs DEFAULTS AND RECOVERIES

- 1,858 cases have been admitted till date
- 715 cases have been closed of which 94 cases have approval of resolution plan
- 378 cases (representing 20% of the total cases admitted) have moved to liquidation stage
- Real estate and Construction sector has highest realization of c.78% of the claim value admitted
- Q1CY2019 witnessed significantly higher claim admissions of INR 38,055 crores compared to INR 8,447 crores in Q4CY2018
- **Average realizable value by FCs is c.43% of the claim admitted and approximately 1.9x the liquidation value**



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Note: a) The data used in this publication are provisional and are subject to revision by IBBI.
b) Segregation of data by sector/industry has been performed based on the business description of the company under default
Source: IBBI and Incwert Analysis



Background

- The Insolvency and Bankruptcy Code, 2016 was introduced to create a time-bound resolution process for defaulted loans and bonds in India. A year later, in May 2017, the Reserve Bank of India (RBI) was vested with legislative powers to initiate proceedings to recover bad loans for effective use of IBC.
- We believe that success of IBC will help in several ways like i) building the foundation for a healthy credit market in India, ii) eventually create liquidity for debt instruments (though this could be a long haul) and iii) improve the attractiveness for global investors to invest in the Indian debt market. Resolving Insolvency is one of the parameters of the World Bank ranking of 'Ease of Doing Business'. India's ranking was at 137th position in 2015 (across 190 countries), and since then it has substantially improved to 77th rank as of 2018.
- The Code provides a timeline of 180 days to conclude a corporate insolvency resolution process, extendable by a one-time extension up to 90 days. This push has meant that proceedings under the Code can take on average about 300 days, including time spent on litigation, in contrast with the previous regime where processes took about 4.3 years ⁽¹⁾.
- Considering the importance of progress updates on IBC, we will come up with periodic publication every quarter to provide updates on the defaults, claim admissions and recoveries under the name "IBBI Quarterly Flash" which will be a part of our overall Incwert Valuation Chronicles monthly publications.
- This is our first publication in the periodic series of IBBI Quarterly Flash.



The Insolvency and Bankruptcy Code, 2016

"An Act to consolidate and amend the laws relating to reorganization and insolvency resolution of corporate persons, partnership firms and individuals in a time bound manner for maximization of value of assets of such a persons, to promote entrepreneurship, availability of credit and balance of interests of all the stake holders including alteration in the order of priority of payment of Government dues and to establish an Insolvency Bankruptcy Board of India, and for matters connected therewith or incidental thereto."

(1) Source – Business Line, <https://www.thehindubusinessline.com/opinion/our-bankruptcy-code-is-world-class/article26822267.ece>

Insolvency – trends and our views

- Since its inception, a total of 1,858 cases have been admitted under IBC.
- Out of total admissions around 715 cases (representing 38%) of the cases have been closed till now. Closure of cases under IBC could be either through appeal/review/settlement, withdrawal under section 12A, approval of resolution plan or through the commencement of liquidation.
- Real Estate and Construction has been a sector where the highest number of insolvency cases were admitted. (Refer to Chart 2)
- Further, out of total admissions, in 94 cases (i.e. 5% of cases admitted and 13% of cases closed), resolution plan has already been approved.

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- Total case admitted: 1,858
- CIRPs closed: 715 (~38%)
- Resolution plan approved: 94
- Highest cases admitted in Real Estate and Construction sector

Chart 1

Cases admitted and closed under IBC (QoQ)

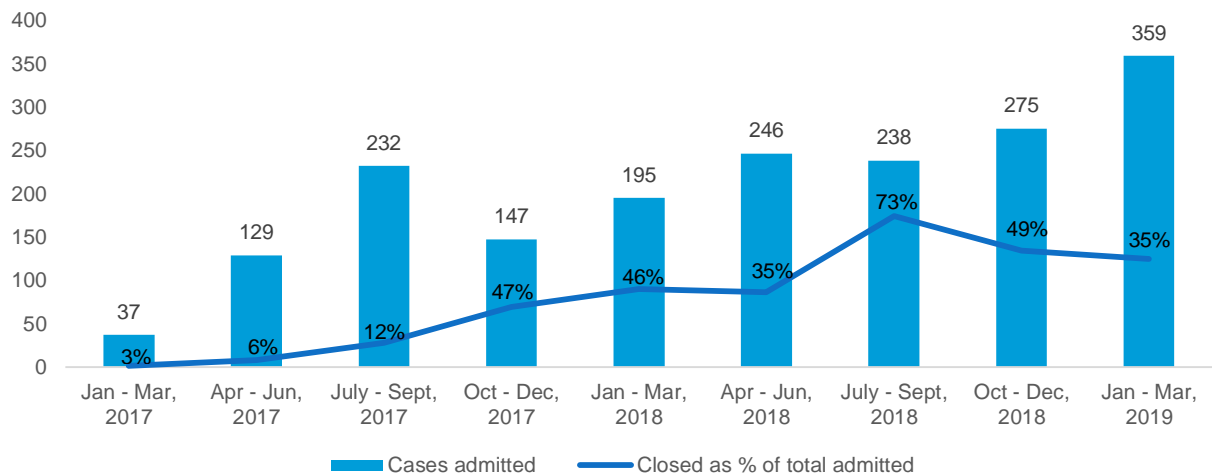
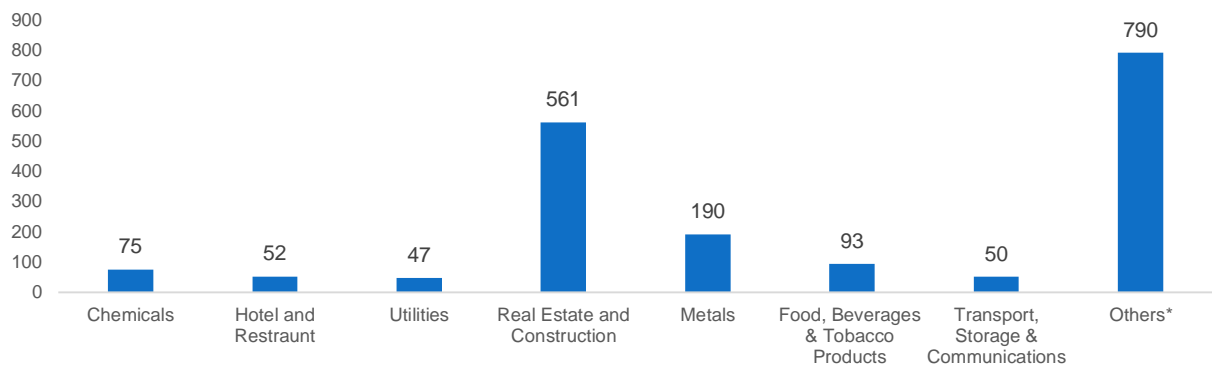


Chart 2

Cases admitted (Industry-wise)



Note: 1) Composition of 'Others' broadly includes: Wholesalers and Retail trader,; Manufacturers of Electrical Machinery and Apparatus products, Auto ancillary, Textiles, Leather and Apparel Products, Agricultural Products and Others; Pharmaceuticals; and Hospitals and Diagnostic Centres.

Recoveries – trends and our views

- 43% average recoveries over the last 2 years, with 24% in the most recent quarter.
- Recoveries are almost 1.9x the liquidation value, with lowest in July-Sept 2018 quarter (1.2x) and highest in Oct-Dec 2018 quarter (2.5x). (Refer to Chart 3)
- Recoveries in the Real Estate and Construction sector is highest, followed by the Hotel Industry and Food and Beverage industry. A further sieve through the data, suggests that resolution plans yielded (as a multiple of liquidation value) lowest in the Hotel and Restaurant sector (1.03x) in comparison to other sectors. (Refer to Chart 4)

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- Average recovery: 43%
- Recoveries are almost 1.9x the liquidation value
- Recoveries highest in the Real Estate and Construction sector

Chart 3

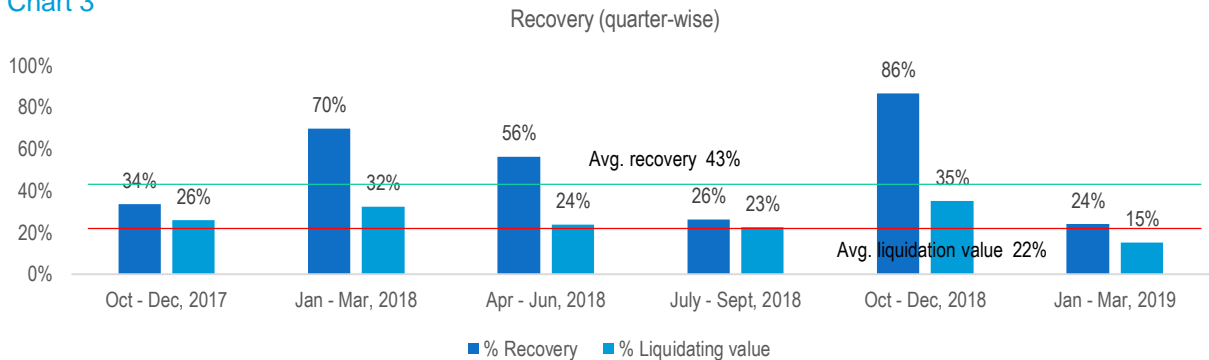
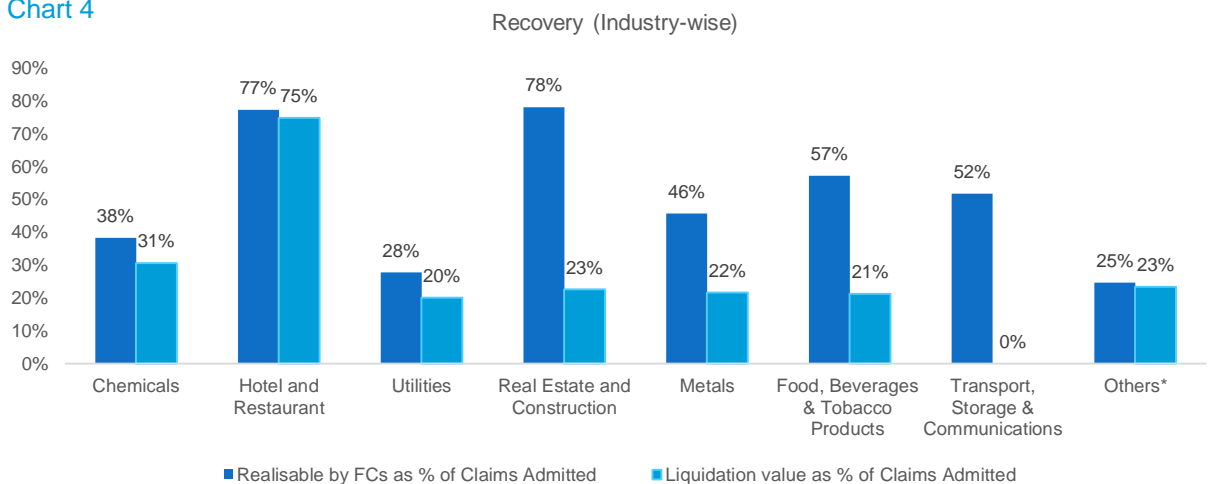


Chart 4



Note: 1) Recovery represents the value realizable compared to the value claimed.

Analysis by initiators

- Under IBC, insolvency can be initiated by either financial creditors (FC) or operational creditors (OC) or corporate debtor (CD).
- CIRP initiated majorly by FCs (51%) followed by OCs (29%) and remainder by CDs (20%) (Refer to Chart 5)
- Recoveries were highest in CIRPs initiated by FCs at 43% followed by situations in which OCs initiated (42% recovery) and lowest at 30% recovery when CDs themselves filed for insolvency. (Refer to Chart 6)



- CIRPs initiated majorly by Financial Creditors (51%)
- Highest recovery in CIRPs initiated by FC: 43%
- Lowest recovery in CIRPs initiated by CD: 30%

Chart 5 CIRPs Initiated by

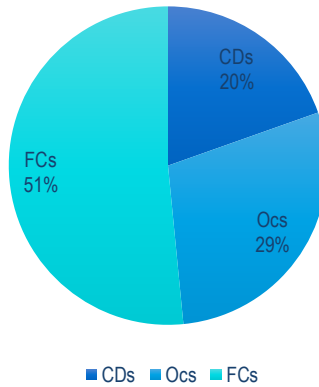
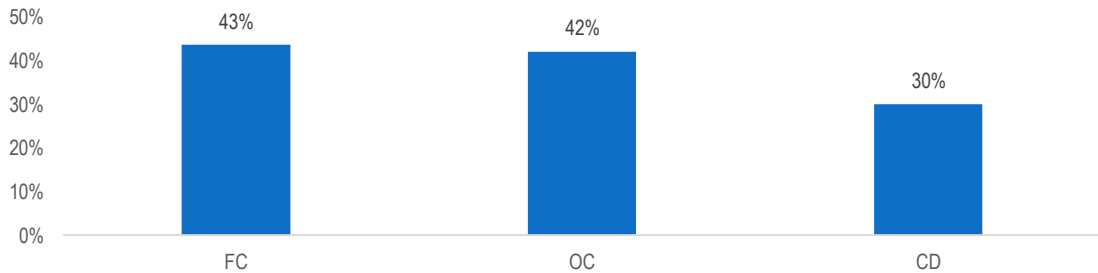


Chart 6

% Recovery (Initiator wise)



Note: 1) Recovery represents the value realizable compared to the value claimed.



Twelve Large Accounts

Overview

- Thereafter, on 13 June 107, RBI released a list of 12 companies constituting 25% of India's total NPAs (Non-Performing Assets) under the name 'Dirty Dozen'. Together they had an outstanding claim of Rs 3.45 lakh crore as against their liquidation value of Rs 73,220.23 crore
- These 12 shortlisted companies under the IBC that have fund/ non-fund exposure of above Rs 5,000 crore where 60 per cent or more has turned bad.

Table 1: First twelve defaulters as notified by RBI

Sl. No	Company	Sector
1	Alok Industries	Textile
2	Amtek Auto Ltd	Auto Components
3	ABG Shipyard Ltd	Ship Building
4	Bhushan Steel Ltd	Steel
5	Bhushan Power and Steel Ltd	Steel & Power Generation
6	Electrosteel Steels Ltd	Steel
7	Era Infra Engineering Ltd	Infrastructure Construction
8	Essar Steel Ltd	Steel
9	Jyoti Structures Ltd	Power Transmission
10	Jaypee Infratech Ltd	Infrastructure Construction
11	Lanco Infratech Ltd	Power Generation
12	Monnet Ispat and Energy Ltd	Steel



Resolution yielded

- As on 31st March 2019, of these 12 accounts under resolution process, six Corporate Debtors have been approved, and other accounts are at different stages of the process.
- The below six corporate debtors represent more than 70% of total claims realisable and more than 67% of total claims admitted under Corporate Insolvency Process.
- Recovery percentage for the six accounts was approximately 45%, in comparison to liquidation percentage of just 22%.



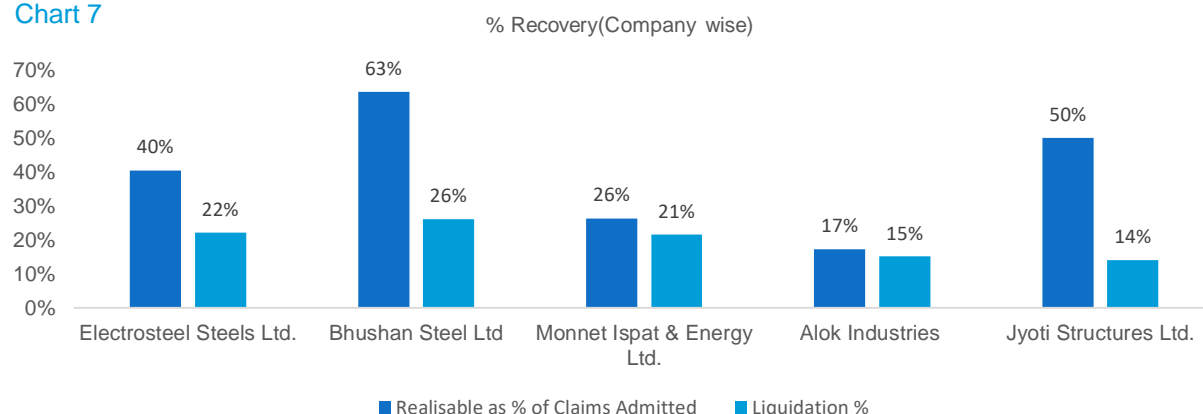
- Approved resolution in 6 out of 12 large accounts
- 6 accounts together constitute 67% of claims admitted
- 6 accounts together constitute 70% of the claims realisable as at 1Q 2019.
- Recovery (large accounts): 45%
- 2.1x liquidation value realised

Table 2 : Debtors Yielding resolution

Amount in INR crores	Date of conclusion	Total Admitted Claims of FCs	Liq. Val	Realisable by FCs	Realisable as % of Claims Admitted	Liquidation %	Realisable as times of Liq. Val
Electrosteel Steels Ltd.	17-Apr-18	13,175	2,900	5,320	40%	22%	1.8x
Bhushan Steel Ltd	15-May-18	56,022	14,541	35,571	63%	26%	2.5x
Monnet Ispat & Energy Ltd.	24-Jul-18	11,015	2,365	2,892	26%	21%	1.2x
Alok Industries	8-Mar-19	29,524	4,433	5,052	17%	15%	1.1x
Jyoti Structures Ltd.	27-Mar-19	7,365	1,023	3,684	50%	14%	3.6x
Essar Steel India Ltd.	8-Mar-19	n/a	n/a	n/a	n/a	n/a	2.7x
Total		117,100	25,262	52,519	44.85%	21.57%	2.1x

Note: 1) Apportionment between FCs and OCs of Essar Steel India Ltd. is under consideration by NCLAT.

Chart 7



Debtors in process (1/2)

Sl. No	Corporate Debtor	Sector	Date of commencement of CIRP	Claims admitted	Status	No. of Days since admission
1.	Lanco Infratech Ltd	Utilities	7-Aug-2017	51,505	In the process of liquidation	n/a (as the company went in liquidation on 27 August 2018)
2.	Bhushan Power & Steel Ltd	Metals	26-Jul-2017	48,524	Matter Pending with NCLT	663
3.	Amtek Auto Ltd	Others	24-Jul-2017	12,605	Resolution process restarted	665
4.	Era Infra Engineering Ltd	Real Estate and Construction	8-May-2018	11,785	Extension for resolution plans	377
5.	Jaypee Infratech Ltd	Real Estate and Construction	9-Aug-2017	13,322	Resolution plan put to vote	649
6.	ABG Shipyard Ltd	Others	1-Aug-2017	18,539	In the process of liquidation	n/a (the company went in liquidation on 25 April 2019)

Lanco Infratech - In the process of liquidation

Lanco Infratech, the flagship company of the Lanco Group and once among the larger private players in the field of power and infrastructure engineering, procurement and construction (EPC), was posted for liquidation by the Hyderabad bench of the National Company Law Tribunal (NCLT) on 27th August 2018, a little over a year after the corporate insolvency resolution process (CIRP) was initiated on an application by IDBI Bank.

Bhushan Power & Steel Ltd - Matter Pending with NCLT

In February 2019, the committee of creditors of Bhushan Power and Steel Ltd (BPSL) has issued a letter of intent to India's largest private steelmaker JSW Steel Ltd, thus approving the latter's resolution plan for the distressed steel mill. JSW steel offered Rs 19,700 crore to lenders and infuse Rs 350 crore to revive the business. But the matter was taken to High court by the promoters of Bhushan Power & Steel Ltd. who claimed that the lenders did not provide them with the details of a resolution plan involving JSW Steel's offer for the company. The court passed ex-parte orders on 18 April 2019, directing the National Company Law tribunal to hear the plea of the BPSL promoters.

Amtek Auto Ltd - Resolution process restarted

The resolution plan was earlier concluded on 25th July 2018, with UK-based Liberty House Group's (LHG) offer of Rs 4,400, representing a recovery of about 34% of admitted FC claims. But the committee of creditors had approached NCLT after Liberty House failed to honour its payment commitments despite receiving the tribunal's approval. Whereas Liberty House had, on its part, alleged "misrepresentation of facts" and discrepancies in valuation of the stressed asset.

The NCLT, in its final order on February 13, 2019, allowed the committee of creditors of Amtek Auto to start the resolution process from scratch. Further, NCLT said that the process should be completed within 150 days.



Debtors in process (2/2)

Era Infra Engineering Ltd - Extension for resolution plans

In March 2019, Lenders of Era Infra Engineering have got a 215-days extension from the National Company Law Tribunal (NCLT), which agreed to exclude those days from the stipulated duration of the insolvency process in response to an appeal, to prevent the company from going into liquidation. The creditors approached the NCLT on the grounds that the insolvency process faced several stumbling blocks on account of investigations by the income tax authorities, making it difficult for prospective bidders to examine the company's books of accounts, which were in the custody of the authorities.

The lenders so far received only one bid from Sun Pharmaceuticals, which was rejected by the lenders. The options now being examined include clubbing the insolvency process of some of the company's subsidiaries with the parent in order to create a more valuable proposition for prospective buyers.

Jaypee Infratech Ltd - Resolution plan put to vote

Jaypee Infratech Ltd. offers construction services. The Company is in the business of constructing highways and commercial, industrial, institutional, residential and amusement complexes along the road. In 2017, the NCLT had admitted the application by an IDBI Bank-led consortium seeking resolution for Jaypee Infratech under the IBC. At that time, the company was expected to deliver residential apartments to homebuyers in Delhi prior to the insolvency move; the homebuyers approached the Apex Court seeking relief. While the Apex Court did not stop the insolvency proceedings, it did order that the committee of creditors must have representatives from the homebuyers, so that their interests are taken care of.

The newly constituted COC, received various bids from NBCC, Kotak Investment, L&T Infrastructure, Singapore-based Cube Highways and Suraksha group, recently.

All the bids were initially rejected. But the proposal of NBCC was revised during the current year; further COC decided to put it for a vote. As on date, the NBCC bid is on e-vote.

ABG Shipyard Ltd - In the process of liquidation

ABG Shipyard Ltd, once India's biggest private shipbuilder, is headed for liquidation after a lenders panel rejected the resolution plan submitted by London-based Liberty House for the debt-laden shipbuilder. NCLT vide order dated April 25, 2019...ordered commencement of liquidation of ABG.



Closing thoughts

IBC has set up a time-bound resolution process for distressed companies which have defaulted on their obligations. Under this new insolvency regime, any of the three stakeholders (i.e. financial creditors, operational creditors and corporate debtor) can go to National Company Law Tribunal (NCLT), a quasi-judicial body in India that adjudicates issues relating to Indian companies.

The number of cases that are being admitted under IBC is consistently increasing since the new regime started in December 2016. However, in these initial years, only a handful of companies have concluded with a resolution plan (13% of total cases closed), and the rest (remaining 87%) have got either liquidated, settled or withdrawn.

For a healthy credit market, the percentage of cases concluding with a resolution plan should increase because the recoveries under resolution plan tend to be higher versus the same under liquidation as evident from the data (December 2016 to 31 March 2019): average recoveries under resolution plan were 43% which was almost 1.9x its calculated liquidation value.



Reference | Incwert Publications

Reference Material:

- IBBI
- NCLT
- Moody's publication https://www.researchpool.com/download/?report_id=1751185&show_pdf_data=true
- Business Line, <https://www.thehindubusinessline.com/opinion/our-bankruptcy-code-is-world-class/article26822267.ece>
- Incwert in-house analysis

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Sunit Khandelwal
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Sunit has worked across a range of sectors such as Infrastructure, real estate, FMCG, retail, engineering, clean energy, healthcare, IT/ ITeS, and other manufacturing industries.

Qualifications:

Chartered Accountant (ICAI)
B.Com (Hon.) – St. Xavier's College
Registered Valuer under IBBI

Sunit has an overall experience of over 13 years with over 12 years in valuation advisory, transaction advisory and M&A advisory.

As a valuation professional, Sunit has undertaken valuation of businesses for transactions, fund raising, strategic decision making, and corporate restructuring. He has also undertaken valuation of intangible assets, option valuation, litigation support, private equity portfolio valuation and valuation for reporting purposes such as purchase price allocation and impairment test under IFRS and Indian GAAP.

In past he has worked with KPMG India (as Associate Director), BDO, Grant Thornton, KPMG UK, and DBDBS a boutique M&A advisory firm.

Sunit is also an active speaker on valuation at National Institute of Finance Management (NIFM).



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Punit brings with him 15 years of experience in sell-side and buy-side advisory across equity and fixed income. He has worked on several bespoke valuations and lent research support to dozens of asset managers/investment bankers/brokers/consulting firms across the globe.

In the fixed income segment, he worked as a fundamental analyst across the capital structure: leveraged loans, distressed debt, insolvency/bankruptcy situations and high-yield asset classes. He has also helped sell-side & consulting firms increase their market presence by coming up with thematic and white label papers.

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