the pioneer

SBI STUCK WITH YET ANOTHER LEMON?

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It is ironical that Jyoti Structures, a manufacturer of power transmission lines and towers, requires restructuring, but such is the pitiable plight of overstretched firms strapped with mountains of debt that they have boxed themselves into a cul-de-sac. A death spiral which they cannot get out of! Worse still, is the situation of the lenders who are finding it difficult to navigate a course which culminates in recovery of these outstanding dues.

RBI-mandated flexible structuring schemes like 5/25 and Strategic Debt Restructuring (SDR) are unable to deliver results for a wide variety of reasons, lack of interest from bidders and of course the dreaded route of litigation taken by affected and involved parties, that trips the process completely.

Now take Jyoti Structures for instance, the SBI as lead member of the joint lenders forum representing banks and financial institutions which had extended certain working capital and term loan facilities for helping the equipment procurement and construction (EPC) business decided to invoke SDR and invite Expressions of Interest (EoIs) from interested parties who were willing to acquire a minimum of 51 per cent shareholding and thereby management control of the company in acute financial distress.

The outstanding dues of the company stood at Rs 6,897 crore, including interest overdue as on December 31, 2015. The last date for receiving EoIs was fixed for March 27, 2016, 6 pm. Guess what? As of April 5, sources close to developments have revealed that the bank consortium has failed to find any buyer for controlling stake in the company. The plan now is to sell assets owned by the company on a piecemeal basis.

Let us look at the qualification criteria for the majority ownership change in Jyoti Structures as posted by the SBI. Essentially the buyer has to display strong business and financial capacity. As such, the turnover for three preceding years had to be in excess of Rs 1,000 crore for the promoter group or any other group company.

This entity had to be in existence for at least five preceding years as on January 1, 2016. The interested party needed to demonstrate its ability to infuse at least Rs 400 crore to revitalise the business of the stressed company.

The SBI, which has operational control of the company may just be stuck with another lemon in the eventuality that it does not find a buyer. Jyoti Structures has consistently been reporting losses for every quarter since January-March 2014. Techno-economic viability consultants RBSA Advisors (incidentally the same global valuation and transaction advisory firm that valued Kingfisher Airlines) who were roped in, found that against a total borrowing of Rs 6,897 crore, net fixed assets of the company were projected at a paltry Rs 130.65 crore for 2016 and even lowlier Rs 102.51 crore for 2017. So how was this company expected to repay the borrowers by selling its assets?

Net sales projected was Rs 2,000.74 crore for March 31, 2016 and Rs 2,351.48 crore for FY 2017. Net loss for FY 2016 was projected at Rs (-) 614.64 crore and (-) 334.55 for FY 2017. Total secured and unsecured borrowing for FY 2016 is shown as Rs 3,308 crore. More importantly, opening order book was given at Rs 3,359.26 crore for FY 2017 and a closing order book of Rs 5,107.78 crore with bank guarantee requirements pegged at Rs 2,703.57 crore.

Of the existing sanctioned facility, the existing fund-based limits were shown as Rs 2,588.71 crore while non-fund based limits were Rs 4,600.50 crore, making the total sanctioned limits of Rs 7,189.21 crore. Standalone revenues for December 2015 quarter were Rs 763 crore, while its net loss stood at Rs (-)140.25 crore.

Now if one examines the innards of this flawed process, one finds that KPMG (engaged by Jyoti Structures on October 21, 2014) had on December 14, 2015 submitted a report (accessed by The Pioneer) for review of the debts at Jyoti Structures. And this makes for fascinating reading for its scathing observations. There were 307 projects including sub-projects from whom communication was sought by the company. Jyoti Structures provided confirmation letter received towards 229 projects amounting to Rs 2,317.96 crore amounting to 61 per cent of total debt balances as on June 2015. Name of the client personnel was not provided in the confirmation, 229 cases amounting to Rs 2,317 crore. Designation of the personnel signing was missing in 94 cases amounting to Rs 803.05 crore. Cases where the option of agree or disagree on the balances has not been captured, 217 amounting to Rs 2,228.07 crore. Confirmation not signed by Finance & Accounts personnel, 68 cases amounting to Rs 791.45 crore.

Getting deeper into the granularity, auditors KPMG found that the company had issued Bank Guarantees (BG) against 142 projects amounting to Rs 2,395.97 crore. BGs amounting to Rs 232.52 (10 per cent of BGs issued) had been invoked by the company's customers for 20 projects related to supply and erection contracts. KPMG reviewed a sample of ten projects out of the 307, including sub-projects and found that the BG amounting to Rs 91.70 crore (being 7.32 per cent of sample projects amounting to Rs 1,251.99 crore) were invoked by three clients. This amount was however, debited back to the customer account and the same was then appearing in the debtor's balance as on June 30, 2015.

What was even more surprising was the practice where client acknowledgement was neither obtained nor any provision was made for the same. Recovery of the amount debited on account of BG invoked by the client could not be ascertained in case of retention of BG.

There were 307 projects and sub-projects with an outstanding amount of Rs 3,781.85 crore as on June 2015 comprising 67 debtors, domestic and export. After mapping the projects against the collection between December 2014 and June 2015, KPMG found that there were 22 debtors amounting to Rs 792.49 crore, including Rs 142 crore as retention money which were outstanding as of June 2015.

Of the 22 debtors, Rs 511.60 crore was outstanding for over a year. Plus there were ten projects which were terminated and the recovery of the balance outstanding as on June 2015 amounted to Rs 394.80 crore which could not be ascertained.

This is a grim tale of how a company went into a tailspin and became precipitously sick. On realisations, KPMG stated that as on March 31, 2015, the company had total outstanding debts amounting to Rs 3,620 crore, out of which the company subsequently realised Rs 278 crore till June 2015 which only amounted to a trifling eight per cent of the total outstanding debts as on March 31, 2015.

Once again, the Jyoti Structures case study pinpoints how the SDR scheme is fraught with risk, where new promoters are averse to picking up a company with weighty baggage.