

Performance of Bhushan Steel Limited

Pre, During and Post CIRP

A Case Study

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The Insolvency and Bankruptcy Code, 2016 (Code/IBC) is one of the path-breaking economic reforms introduced by India. It seeks to resolve financial distress of companies within defined timelines while aiming to balance the interest of all stakeholders and maximising the value of assets of the distressed company. The Code serves as a regulator facilitating exit of unprofitable and inefficient businesses by liquidating them, and at the same time rescuing failing but viable businesses through resolution. It strives to prevent or rather minimise the adverse social and economic consequences of business failures. Corporate insolvency and bankruptcy process under the Code, works on the premise that investors are willing to expend resources by identifying and saving insolvent but viable firms that can continue efficiently. The objective is to re-allocate precious resources from unproductive use to productive use.

Under the Code, at the onset of a corporate insolvency resolution process (CIRP), a resolution professional (RP) takes over the company in distress and performs all functions as the process manager and a catalyst of the entire resolution process. He seeks to balance the interest of various stakeholders while attempting a feasible resolution of the distressed company. The RP takes over the management of the business, and the control over the assets of the company during the CIRP. The acumen, competence and commitment of the RP can result in a complete turn-around of the distressed company.

This article is a case study of the resolution of Bhushan Steel Ltd. This case was one of the 12 large NPA account cases that had been referred for resolution under the Code by the Reserve Bank of India. This case study provides a glimpse into the operational and financial performance of the company in the pre, during and post CIRP phases of its life. The case study reflects how the performance of the company turned for the better as the CIRP yielded a viable resolution plan that saved the life of the company.

COMPANY PROFILE

Bhushan Steel Ltd. was incorporated in 1983 with the name Jawahar Metal Industries Pvt Ltd. In 1987, Brij Bhushan Singal and his sons Sanjay Singal, Neeraj Singal and associate companies took over the management of the company by acquiring the entire stake. In the year 1989, the company became a deemed public limited company. In 1992, the company was renamed as Bhushan Steel and Strips Ltd. after diversifying into wide-width cold-rolled steel strips. Also, they completed the cold rolling plant during the year. In the year 1993, the company came out with its first public issue to finance their forward integration project for the manufacture of 1,00,000 tonne per annum (TPA) of continuous

annealed/ galvanised steel strips.

In the year 2000, the company approved the amalgamation of Bhushan Steel Ltd. with the Bhushan Steel and Strips Ltd. In the year 2001, the company implemented the expansion project of 2,50,000 TPA of cold rolling cum galvanising and tube complex in Khopoli, Maharashtra at a cost of Rs 4860 million. In 2003, they entered into a strategic alliance with Sumitomo Metal Industries of Japan for the process know-how for manufacturing of automotive steel sheets. During the year 2004-05, the company commissioned the cold rolled (narrow) and pipe plant at Sahibabad. During 2005-06, the company commissioned the Galume line, an aluminium and zinc coated patented product of the company, for the first time in the country, at Khapoli plant. The company changed its name from Bhushan Steel and Strips Ltd to Bhushan Steel Ltd with effect from April 12, 2007.

During the year 2007-08, the company successfully completed Phase I of the Orissa Project. The company started the production facilities of sponge iron (6,80,000 TPA), billets (3,00,000 TPA) and power plant (110 MW) thus completing Phase-I of Odisha Project on schedule. The company acquired a major stake in Bowen Energy Ltd. of Australia. Additionally, through their 100 per cent subsidiary Bhushan Steel (Australia) Pvt. Ltd, the company entered into a joint venture to develop their coking coal / thermal coal projects in Australia. The company incorporated two wholly owned subsidiaries namely Bhushan Steel (Australia) Pty Ltd. and Bhushan Steel Global FZE. During the year 2008-09, the company successfully commissioned the cold rolling mill (narrow) (50,000 TPA), tube mill (40,000 TPA) and balancing equipment viz. pass mill, cold rolled splitter, cut-to-length-line and annealing furnaces etc. at the existing Khapoli Plant.

The group grew quickly by importing sophisticated Japanese machinery to make steel for India's nascent automobile industry. But Bhushan Steel's control over availability, quality and cost of input steel was extremely limited¹. As a result, in 2003, they decided to build an integrated steel plant in Odisha. This was a time of great optimism for the steel sector. Banks were eager to lend to a company with an impressive order book of clients like Maruti Suzuki, Mahindra and Mahindra, and Tata Motors. Moreover, banks were getting into project finance for the first time. Steel is however a cyclical business, and as Chinese demand tapered after the 2008 Olympics, prices plummeted as fast as they had once peaked. For Bhushan Steel, it was a gust of headwind. Generally, during an economic slowdown, steel demand in India does not decline, while the price of steel does fall. Debt enables a company to grow bigger rather quickly. However, when bad times in terms of economic contraction befall an economy, the debt suddenly becomes a massive financial burden.

By 2010, Bhushan Steel was already shouldering loans worth Rs. 11,404 crore. Despite this the company went on a borrowing spree to finance the next phase of construction. By December, 2012, the steel industry was slipping behind on interest payments as steel prices fell to USD 300 per tonne from a 2008 peak of USD 1265 per tonne. Banks were conflicted: pull the loans and book a loss or keep lending and hope the sector revives. Bhushan's lenders pinned their hopes on the Odisha plant reaching full capacity. It never did.

By March, 2014, it was clear the company was in trouble. The company's profits had shrunk to a mere Rs. 62 crore, while the company was spending more than Rs. 1,600 crore a year in interest payments alone². When Bhushan Steel was on the brink of default in March, 2014, SBI and a consortium of lenders sanctioned fresh loans. But as steel prices remained stubbornly low, and Bhushan's interest costs escalated, the company's total debt rose by nearly 30 per cent in two quick years: from Rs. 35,710 crore in 2014 to Rs. 46,062 crore in March, 2016.

The company's product portfolio comprises of flat products. The company is producing cold rolled close annealed coils, galvanized sheets, precision tubes, high tensile steel, hardened and tempered steel strip, wire-rods, colour-coated sheets and galume. They also produce, sponge iron, pig iron, billets and slabs.

CIRP OF ERSTWHILE BHUSHAN STEEL LTD.

Facts of the turnaround

The CIRP process of Bhushan Steel Ltd. was initiated on July 26, 2017, under the provisions of the Code. Pursuant to the initiation of CIRP, Tata Steel Limited (TSL) submitted its resolution plan for the resolution of Bhushan Steel Ltd. and was selected as the highest compliant resolution applicant by the committee of creditors constituted under the IBC. On May 15, 2018, NCLT approved TSL's resolution plan.

TSL has acquired Bhushan Steel Ltd. through its wholly owned subsidiary Bamnival Steel Ltd (BNL) wherein TSL has taken a controlling stake of 72.65 per cent in Bhushan Steel Ltd. and paid the admitted corporate insolvency costs and employee dues, as required under IBC.

TSL is part of the Tata Group and a public limited company engaged in the business of manufacturing steel and offers a broad range of steel products including a portfolio of high value-added downstream products such as hot rolled, cold rolled and coated steel, rebars, wire rods, tubes and wires. The equity shares of TSL are listed on Bombay Stock Exchange (BSE) and on National Stock Exchange (NSE).

BNL is a public limited company incorporated on January 19, 2018 formed as an SPV (Special Purpose Vehicle), wholly owned subsidiary of TSL, in order to facilitate the acquisition of Tata Steel BSL Ltd. (TBSL) by way of the CIRP prescribed under the Code.

TBSL formerly known as Bhushan Steel Ltd. is India's third largest secondary steel producing company with an existing steel capacity of 5.6 million TPA. It is engaged in the business of manufacturing steel and offers products such as hot rolled, cold rolled and coated steel, cold rolled full hard, galvanized coils and sheets, high tensile steel strips, colour coated tiles, precision tubes, large diameter pipes, etc. TBSL is a subsidiary of BNL and equity shares of the company are listed on BSE and on NSE. TSL has an operating revenue of Rs. 73,016 crore which is 3.5 times more than the TBSL and further has Profit After Tax to the tune of Rs. 10,533 crore which is almost 10 times that of TBSL. Interest cost is very less in TSL as compare to TBSL. TBSL has now been able to effectively clean its balance sheet through the IBC route. This particular case is in fact a leveraged buyout that was financed largely through tax breaks and debt on the target company's assets and minimal (around Rs. 300 crore) through equity contribution and internal accruals. This merger is a consolidation of same line of businesses. The value addition to stakeholders from this merger will pan out in the near future.

This merger had many advantages in terms of product portfolio diversification and capacity addition. This acquisition added capacity of 5.6 million tonnes per annum (MTPA) to the current TSL steel production capacity which will enable the company to reach its target of 33 MTPA by 2025. Consolidation will also give TSL access to high-quality assets of TBSL such as widest cold rolling mill in India and a complementary product portfolio with value-added products. The merger will also give TSL a presence in western India. The merger will also help in better management and effective utilisation of resources, reorganising TBSL sales and marketing with distribution channel of TSL.

Pursuant to the resolution plan, BNL subscribed to 72.65 per cent of the equity share capital of TBSL for an aggregate amount of Rs. 158.89 crore and provided additional funds aggregating to Rs. 35,073.69 crore to TBSL by way of debt/convertible debt. The remaining 27.35 per cent of TBSL's share capital will be held by TBSL's existing shareholders and the financial creditors who received shares in exchange for the debt owed to them.

The acquisition is financed by combination of external bridge loan of Rs. 16,500 crore availed by BNL and investment by Tata Steel in BNL. The bridge loan availed by BNL is expected to be replaced by debt raised by TBSL over time.

The funds received by TBSL as debt and equity have been used to settle the sustainable debts owed to the existing financial creditors of TBSL, CIRP costs and employee dues, by payment of Rs. 35,232.58 crore.

The remaining unsustainable debts of Rs. 25,285.46 crore were novated by the financial creditors to BNPL for a consideration of Rs. 100 crore. BNPL, in its capacity as the promoters of TBSL, has waived off the unsustainable debts less cost of novation and the same has been recognised as equity contribution during the year ended March 31, 2019.

10 per cent Redeemable Cumulative Preference shares of Rs.100 each amounting to Rs. 2,425.57 crore were redeemed for a total sum of Rs.4,700. Gain arising out of redemption was recorded as exceptional item in the financial results for the year ended March 31, 2019.

Operational creditors are to be paid Rs. 1,200 crores which will be paid over a period of 12 months.

Performance Analysis

The performance of TBSL, pre, during and post CIRP can be adjudged by measuring the impact of insolvency resolution on some of the key performance indicators of the company. The table below shows the changes in some of the important performance indicators such as sales, profitability, inventory management, cash flows, etc, as the company passed through the three different phases of insolvency, CIRP and successful resolution.

Pre and During CIRP

The performance of the company improved significantly in 2017-18 (during the period of CIRP) as compared to pre CIRP in terms of its turnover, sales and cash flow from operating activities. This can be attributed to the effective management of the company's affairs during CIRP and a better control over its operations. The turnover of the company increased by 15.82 per cent and sales and production volume (in MT) increased by 12 per cent. Further, net debtors were reduced by 20 per cent and net cash flow from operating activities increased by 137 per cent as a result of better management control and operational efficiency which arrested the progressive decline in key performance indicators witnessed in the period prior to CIRP.

During and Post CIRP

The results of financial year 2018-19 are a testimony to the overall improvement the company has been able to achieve in a short period of time. There was an increase in revenue by 20.04 per cent in 2018-19 (during / post CIRP) over a period of one year due to a ramp up in production activities. The increase in revenue was however offset by an increase in the prices of raw material such as coking coal, hot rolled coil and other alloys. Nevertheless, the production activities picking up in the CIRP period

Table: Performance Analysis

Performance Indicators	Before CIRP as on 31.03.2017	During CIRP as on 31.03.2018	After CIRP as on 31.03.2019
Turnover (Rs. Crore)	15,027.30	17,404.43	20,891.60
Sales and Production Volume (in MT)	3.42	3.84	4.16
Net Profit Ratio (%)	-23.30%	-142.57%	8.20%
PBDIT (Rs. Crore)	2993.98	2299.93	3931.00
EBIDTA Margin %	19.88	12.67	18.18
Interest Coverage ratio (Times)	0.55	0.08	0.66
Interest and Financial charges (Rs. Crore)	5426.76	5304.90	3752.18
EPS (Rs.)	-154.56	-195.45	17.45
Inventory Turnover Ratio	0.13	5.63	5.93
Current Ratio	0.21	0.11	1.91
Debt to Equity Ratio	24.59	0.03	0.93
Net Debtors (Rs. Crore)	1525.00	1220.00	697.00
Debtors Turnover ratio (Days)	31.10	28.78	16.74
Net Cash Flow from Operating activities (in Crore)	752.00	1789.00	5800.00

Source: Bhushan Steel Ltd. Annual Reports for FY 2016-17, FY 2017-18; Tata Steel BSL Ltd. Annual Report for FY 2018-19.

and continuing post CIRP is in tandem with the objective of the Code to keep the company as a going concern and restoring the health of the company.

During the financial year 2018-19, the saleable steel production of TSBL stood at 4.16 MTPA which is more than 10 per cent over FY 2017-18 (3.8 MTPA). This improvement in production can be attributed to higher mill availability with improvement in maintenance practices and uninterrupted raw material supply.

The company's performance in terms of financial ratios also improved in the post CIRP period. The Current Ratio, which is a liquidity ratio that measures whether a company has enough resources to meet its short-term obligations, improved in 2018-19 primarily on account of reduction in the current liabilities due to reduction in long term borrowings and short term borrowings (due to repayments). The company's EBITDA margin also improved in 2018-19 primarily on account of higher operating profits.

The Debtor Turnover Ratio which is a reflection of the effectiveness of a company in extending credit as well as collecting debts, improved in 2018-19 primarily on account of introduction of channel financing facilities across the distributor segment and discounting arrangements across the other segments.

The Interest Coverage Ratio which measures how many times a company can cover its current interest payment with its available earnings, improved in 2018-19 primarily on account of higher operating profits and reduction in finance cost on account of reduction in external borrowings.

Total amount of loans (including interest) which were outstanding during FY 2017-18 were approximately Rs. 58,000 crore with an interest rate varying from 9 per cent to 20 per cent including penal interest. The existing debts of the company were settled by paying Rs. 35,200 crore to the creditors. Therefore,

the YoY loan amount has decreased significantly in FY 2018-19 resulting in a decline in the finance cost from Rs. 6,305 crore in 2017-18 to Rs. 3,752 crore 2018-19.

Performance in FY 2019-20

The company announced its Q3 FY 2019-20 and nine monthly (9M) FY 2019-20 key production and sales figures (provisional) on January 9, 2020. The company achieved crude steel production of 1.154 million tonnes (MT) in Q3 FY 2019-20 compared to 1.067 MT in Q2 FY 2019-20 and 1.039 MT in Q3 FY2018-19. For 9M FY 2019-20, the crude steel production stood at 3.343 MT compared to 3.132 MT in corresponding period of previous year. The company's sales stood at 1.254 MT in Q3 FY 2019-20 compared to 1.041 MT in Q2 FY 2019-20 and 0.0917 MT in Q3 FY2018-19. For 9M FY 2019-20, the sales stood at 3.159 MT compared to 2.911 MT in corresponding period of previous year. Net sales in FY 2019-20 are: Q1 – Rs. 4124.45 crore, Q2 – Rs. 4311.67 crore and Q3 – Rs. 5038.11 crore and Q4 – Rs. 4064.89 crore. The quarterly net profit at Rs. 5.93 crore in March, 2020 increased by 102.79 per cent from Rs. 212.41 crore in March, 2019.

FUTURE OUTLOOK

With focus on overall improvement, taking the workforce of erstwhile Bhushan Steel Ltd. along, the emphasis of the new management has been on safety, environment and social responsibility, in addition to operational and financial excellence. As part of the synergy drive between Tata Steel and TBSL, it has launched many products such as Tata Steelium, Tata Shaktee and Tata Kosh, expanding their customer base and driving new processes and product development. TBSL is expected to maintain its buoyancy and progressively improve its performance and operational efficiency on account of the following expected business scenarios which are likely to favourably impact the business of the company.

- The construction sector is witnessing a consistent revival, mainly supported by government spending on infrastructure. The construction sector is likely to maintain its current momentum with gradual rise in investment.
- The capital goods sector is showing signs of rising manufacturing capacity utilisation. The renewable energy segment is also witnessing strong demand with several new projects being launched due to strong government focus.
- Consumer durables demand emanating from refrigerators, washing machines, air conditioners and ceiling fans is likely to normalise to around 7 per cent in coming years.
- On-going freight corridor and metro rail projects will continue to support the demand in railway sector, along with the electrification of 16,540 track kms by 2022.

CONCLUSION

Corporate rescue has become a buzz word in the corporate world. Conceptually, corporate rescue refers to a structured method which can provide a ground for distressed but potentially viable companies to take a new breath of life, free from the deadly enforcement of debt by individual creditors, It enables the company, to negotiate with all the stakeholders and eventually rehabilitate itself to its former healthy operations. The efficiency of the insolvency and bankruptcy architecture to provide the much-needed succour to the companies in distress depends mainly on the adequacy and definiteness of law and regulations and the person handling the process. It may seem conceivable for an insolvency system to function with minimal interventions by courts or government agencies. However, it is not

conceivable for such a system to function effectively without specialists such as RPs who act as agents of reorganisation and have the capacity to lead and direct a corporate rescue process with desired socially and economically beneficial outcomes. The case study of Bhushan Steel Ltd. highlights the efficiency and effectiveness with which the CIRP was carried out by the RP which not only rescued the distressed company but also paved the way for the sustained growth of the company. The resolution of the company benefitted financial creditors immensely as they realised close to Rs. 35,571 crores of their dues. The realisation by all claimants as a percentage of liquidation value was a whopping 252.88 per cent³. Going Forward, this case will stand as a case in point of one the most successful resolutions under the Code. It will serve as an exemplary example of an IBC success story.



NOTES

¹ Bhushan Steel Limited, Annual Report 2009-10.

² Aman Sethi (2017), “NPA crisis: The rise and fall of Bhushan Steel into the great Indian debt trap”, *The Hindustan Times*, 8 August.

³ IBBI, Newsletter, Quarterly, January-March, 2020, Volume 14.