



Comparative study on the insolvency of selected Indian companies

¹Thakkar Madhuri Narendrakumar, ² Salman Mustak Banglawala

¹ Student, Parul Institute of Management and research, Parul University, Vadodara, India

² Student, Parul Institute of Management and research, Parul University, Vadodara, India

Email – 200617200197@paruluniversity.ac.in , 200617200349@paruluniversity.ac.in

Abstract: *The purpose of this research paper is to provide some important learning to the people who are already doing a business along with potential businessmen and women. We also hope that it will help investors and regulators too in performing their roles in a better manner.*

Key Words: *IBC, Indian, Acquisition, DHFL, RCom, Jio, Tata steel, Bhushan steel*

1. INTRODUCTION:

Do you like to fail? Obviously, no one likes it. We even don't like to talk about failures. But we need to understand that failure is as much part of life as a success. It has its importance. It provides us with the learnings that probably success stories can't. So, here we are bringing the stories of some Indian companies that were failed i.e. insolvent post-2016.

2. LITERATURE REVIEW:

Let's discuss a few Indian companies that were declared insolvent post-2016.

1. Bhushan Steels:

Bhushan steels were started in the year 1987 by Brij Bhushan Singhal by acquiring a steel plant that was struggling to survive. At this time, India's steel industry was at its peak so the time of their entry was good. They were using high-end technology in their business.

Bhushan steel was used to import materials and because of that their production capacity was hindered. So, they decided to make a plant in Odisha to address this issue. For the same, they borrowed money from the bank as a loan and started constructing a plant in 2005. Everything was going as per the plan but in 2008, the financial crisis hit the company.

This plant was their only ray of hope and to complete it, they kept on borrowing. The company witnessed low profits during the period along with high leverage. The company kept on borrowing but sadly the construction work didn't complete. Moreover, in 2013, the company witnessed a terrible accident that killed 3 workers, and 29 people left injured.

Furthermore, Bhushan Steels has sanctioned a bank loan of 18000 crores in 2014. So, this is how it went towards insolvency. NPA reported 8 lakh crores as per one report published in 2017.

Who filed a petition in NCLT?

PNB i.e. Punjab National Bank reported a fraud in the year 2019 of over Rs. 3800 crores by Bhushan power and steel Ltd.

Why this acquisition was done?

In 2018, Tata Steel acquired Bhushan Steel and named it Tata Bhushan Steel Ltd. (TBSL) under the Insolvency and Bankruptcy Code 2016.

Tata steel is the lowest cost producer of iron ore in the world. It can use that ore for Bhushan steel's plants, which can generate higher profits along with higher production.



Share exchange ratio:

15:1 i.e. for every 15 shares of Tata Bhushan steel ltd. (TBSL); shareholder got 1 share of Tata steel.

At what price it was acquired?

Tata Steel acquired Bhushan Steel for Rs. 35200 crores in 2018.

Is the acquisition successful?

As per some reports, TBSL Ltd. Has reduced debt by 60 percent within three years. The gross debt of TBSL came down by Rs 5500 crores in 2020-21 due to strong cash flows from the business. So this acquisition so far is looking beneficial.

2. Dewan housing or DHFL:

DHFL was a non-banking financial company, also known as a shadow bank. This means it didn't have a banking license or access to central bank liquidity, but is nevertheless involved in financial services – in this case, primarily giving loans to home buyers in India's tier 2 and tier 3 cities.

A scam of more than 31000 crores was done by the company by sanctioning and disbursing astronomical amounts in secured and unsecured loans to the shell companies that were linked to DHFL's primary stakeholders i.e. Wadhawans. This money has been used to buy shares/equity and other private assets in India and abroad, including in countries like the UK, Dubai, Sri Lanka, and Mauritius.

This scam had major repercussions because as per the industry practice, loans are advanced to companies and secured by not only the properties of the borrower company but also by personal guarantees of promoters of companies. The recovery of the amount seemed impossible as directors or the borrower companies themselves did not own any assets or properties.

Petition in NCLT by the creditor:

RBI admitted a plea against DHFL in NCLT over governance concerns and defaults. On 20th November 2019 proceedings were initiated against it.

Bids received and acquisition at what price?

Oaktree Capital and Adani group were also in the race till the last round with the Piramals. Acquisition of DHFL by the Piramal group was done for 34250 crores against cash and non-convertible debentures.

Why did this acquisition take place?

Piramal group was already providing home loans, secured and unsecured business loans, etc. DHFL was majorly providing home loans. So, because of this acquisition competition has reduced. Along with it, its wish to be among the top 5 NBFCs may get fulfilled due to this acquisition.

Share exchange ratio:

A reverse merger took place between DHFL and PEL. "A reverse merger is a process by which a smaller, private company goes public by acquiring an already public company."

After the merger, DHFL has become a wholly-owned subsidiary of PEL i.e. Piramal Enterprises Limited by acquiring 100 percent of the equity share capital of DHFL.

3. Reliance Communications:

One of the popular bankruptcy cases in India is of Reliance communications, because of the naturally "Ambani" family. New technology was launched by Reliance Communications early compared to its competitors. While its rivals charged anywhere between ₹4-6 per minute even for incoming calls, RCom offered them for free with a ₹500 handset. Then, what went wrong, why did it have to go insolvent then?

Happening of the events:

In December 2002, Reliance communications launched CDMA services with a 500rs. Handset and free incoming calls.



In June 2005, Anil Ambani gets Reliance Infocomm after a public split from Brother Mukesh Ambani.

In June 2006, Reliance Infocomm was renamed “Reliance communications”.

In October 2006, Reliance Communications announced a single rate at Rs. 1 per minute all over India.

In December 2007, RCom launched GSM services and invested Rs. 13980 crores

In March 2010, it bided for the 3G spectrum.

The petition reached to NCLT:

In September 2017, Ericsson filed an Insolvency petition Rs. 1100 crores from the company.

Insolvency and liquidation process:

In May 2018, the process for liquidation was initiated by NCLT. In February 2019, Anil Ambani was held incompetent to pay the debt to Ericsson. In February 2019, it filed for bankruptcy. It had an estimated debt of ₹ 50000 crores against assets worth ₹18000 crores.

Acquisition of some assets of Reliance Communications:

Join and UVARC were top bidders in the race to acquire Reliance Communications. Reliance Jio agreed to pay about Rs.4700 crores for the tower and fiber assets of Reliance Infratel.

Why acquisition of some assets by Jio?

Jio is a major player dominating the telecom industry. Fiber assets, 4G spectrum, and other assets were available for sale at a lower price by the insolvent firm. It was a systematic step by Jio to go ahead in the competition along with bringing technological innovations.

Debt paid to creditors:

Anil Ambani’s spokesperson clarified that RCom paid Ericsson dues by raising around Rs. 460 crores by leasing corporate assets.

3. FINDINGS:

1. Bhushan steels:

One of the biggest steel producing companies was doing fine before 2005 when it decided of making a steel plant in Odisha. In 2008, the financial crisis led to the falling of steel prices from 1265\$ to 300\$. For completing the plant construction, they kept on taking loans. In the year 2011, it had a debt of 11404 crores. Later fraud of 100 crores was brought out to the public. Insolvency proceedings began in NCLT after a petition was filed in the year 2019. So, the financial crisis played a crucial role in failing of the company.

2. DHFL:

DHFL’s case is unique as the general public’s money had been involved greatly in this case i.e. more than 50% of borrowings done by it was from the general public in the form of fixed deposits.

Dewan Housing Finance Ltd. Started defaulting to which a forensic Audit Report was made by KPMG. The report showed that the promoters have transferred 20000 crores to their own companies. DHFL gave 14000 crores of loans to 25 companies which later on were transferred back to the promoters' companies. DHFL did not term these loans as NPA. The scam was brought out in the public domain to which the share prices came down drastically. The debt was 93000 crores and the company was occurring losses continuously.

3. Reliance Communications:

Reliance Communications had made a huge investment in CDMA, 3G, and GSM. In the 2G spectrum scam, Reliance Communications' name has also appeared. In February 2010, CBI inquired Anil Ambani regarding the same.



To upgrade technology, it had taken a huge amount of debts that they were later on unable to pay, as in the telecom sector there was and is cutthroat competition. Telecom tariffs were also another issue. It tried to raise capital by issuing shares to pay the debt but failed to do so.

4. RECOMMENDATIONS:

Following are the suggestions that are given so that precautionary actions can be taken in the future by the concerned parties.

1. Bhushan steels:

It was not in the company's hands to prevent the 2008 financial crisis, but sufficient accumulated profits could have helped in this time.

Secondly, when building a plant in Odisha, some workers had met with an accident, the reason for the same is uncertain, but surely, if it was due to human errors, then it could have been prevented from happening.

The last and most important thing is that in 2014, the bank sanctioned it a loan of around 18000 crores. So, here bank that sanctioned a loan could have analyzed a few years' past financial statements of the company. Then, in that case, the amount of NPA could have been less than 8 lakh crores.

2. DHFL:

Regulatory agencies failed to perform their role in a better manner in DHFL's case. Even auditors and credit rating agencies' work was also condemned. DHFL was given an "AAA" rating by the credit agencies at that time and naturally, it boosted people's confidence in a company leading to the high amount of investments done in non-convertible bonds (NCD) and fixed deposits (FD), moreover, no any detection of scam or fraud was done by auditors.

So, in short, regulatory agencies like RBI, SEBI along with statutory auditors and credit rating agencies need to be more vigilant to avoid such types of frauds in the future.

The last and the most important thing that could have prevented this scam from happening are ethical values. Before law and regulators, a person's consciousness comes. So, key managerial personnel needed to think about peoples' trust in DHFL.

3. Reliance Communications:

One of the factors responsible for the insolvency of RCom is the technological factor. It had taken heavy loans for installing CDMA, 3G, and GSM. Here, it needed to make a proper balance of debt and equity. When it failed to pay the debt later, it issued equity, but already by the time, the company's reputation was at stake and this plan got failed.

The bank that issued the loan to RCom also needed to do proper evaluation and analysis of past financial statements; it could have reduced the liability of RCom and NPA.

Table : 1

Name of Company	Total debt (Crores) (Aprox.)	Acquired (Yes/No)	Acquisition price (Crores)
Bhushan steels	63020	Yes (Tata steel)	35200
DHFL	90000	Yes (Piramal group)	34250
Reliance Communications	26000	Yes (Reliance jio)	4700 (as per the agreement – for tower and fibre assets)

(Sources: The Economic Times: 19-5-2018, Business Today: 6-5-2020, Business Standard: 1-10-2021)



This table shows the total debt of companies that were declared insolvent along with the data on acquisition and its price. This data clearly shows that against the total amount of debt, its acquisition price is much lower. The greatest amount of financial fraud that has taken place in history is of DHFLs.

5. CONCLUSION:

Failures of businesses happen due to numerous factors. This can be due to controllable factors or non-controllable factors. Internal factors are controllable factors. If companies can detect these factors on time and control them, then businesses can be saved from falling. External factors like legal, political, etc. factors are non-controllable. Businesses need to adjust themselves as per these factors to survive in the business.

So, the following can be the factors responsible for the insolvency of these companies.

Table : 1.1

Name of the company	Sector or Industry	Factor responsible for insolvency (Internal/External)	Reason for insolvency
Bhushan Steels	Power and steel	External	Financial crisis (2008)
DHFL	Financial Services	Internal External	1. Improper checking of the background of loan applicants. 2. Regulatory or legal factors (Limited role of a regulator).
Reliance Communications	Telecom	External	1. Competitive factors 2. Technological factors

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