

CASE STUDY

Case Study: Uttam Galva Metallics Limited & Uttam Value Steels Limited

The facilities of UGML and UVSL were closely intertwined with the railway siding used for transport of raw material and finished goods which was the property of UGML whilst the staff township and the water tanks which were integral to the unit was the property of UVSL. There were various other linkages of utilities between UGML and UVSL. Considering these synergies and close interlinkages, the value of one unit was totally dependent on the other and hence both the companies required to be resolved in co-ordination to achieve maximization of value.

A lenders consortium, led by State Bank of India, had initiated insolvency proceedings against the two entities in 2017 and 2018. Lenders to Uttam Metallics had submitted claims worth Rs 4,263 crore, of which Rs 4,176 crore was admitted by the resolution professional. A total claim of Rs 3,014 crore was admitted against Uttam Value Steels. Finally, the NCLT approved the Resolution Plan in May 2020 which involves an upfront settlement amount and deferred and contingent payments to financial creditors worth Rs 1,567 crore and Rs 1,078 crore, respectively.

*Besides, running the Corporate Debtors (CDs) as Going Concern (GC), the challenges also include Payment of GST dues for Moratorium Period, Related Party Linkages, handling bidding process and conditional Resolution Plans, recovering cost of CIRP, and implementing the Resolution Plan. **Read on to know more...***



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1. Background

Uttam Galva Metallics Limited (“UGML”) was a part of Uttam Group. UGML is engaged in the business of manufacturing hot metal/ pig iron and has an iron making capacity of 0.60 MTPA at Wardha, Maharashtra. It was a major supplier of hot metal to Uttam Value Steels Ltd (“UVSL”) a listed company of the same group. Both the plants are located adjacent to each other at Wardha along with a captive power plant Indraprastha Power Private Limited (“IPPL”). Both UGML and UVSL derive substantial business synergies from the combined operations of the iron making (hot metal) facility of UGML with the steel plant of UVSL and together with IPPL constituted the integrated steel manufacturing complex.

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Uttam Galva Metallics Limited
& Uttam Value Steels Limited

**Performance Analysis of
Uttam Galva Metallics Limited
& Uttam Value Steels Limited**

Pre, During and Post CIRP

Case Study by
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*The Case Study is also available on IIIPI website, www.iiipicai.in (Resources – Success Stories of IP <https://www.iiipicai.in/success-story-of-ip/>).

2. Reasons for Financial Stress

The saga of financial stress started with the Uttam group acquiring Uttam Value Steels Limited, the erstwhile Lloyds Steel Industries Limited (“LSIL”), in March 2012. The acquisition of the UVSL made strategic sense as the unit was a located adjacent to the other plant owned by the Uttam group. There were significant synergies between the two units. To leverage these synergies Uttam group embarked upon an ambitious expansion plan of its primary steel plant in UGML.

Further as the plants were already operating in a working capital deficient scenario, most of the sale was done with a 7 to 10 days credit cycle and the same had also been monetized.

The acquisition of UVSL and the investments made in the expansion project in UGML stretched the financial and operational resources of the Uttam group. During the same time starting 2014-15 the steel market in the India went through a sustained slowdown and a brutal price correction. This market weakness put further pressure on the financial position of the group. Pursuant to the Company's account being categorized as SMA-2, in May 2016, a Joint Lenders Forum was formed by the lenders as the SDR (Strategic Debt Restructuring), Guidelines¹ of the Reserve Bank of India in June 2016. However, no proposals were received from any prospective investor, the lenders decided not to convert debt into equity. Consequently, SDR for the companies failed and in January 2017 the accounts were classified as non-performing asset. In December 2017, the JLF agreed to initiate the insolvency resolution proceedings against the companies.

3. Co-ordinating Corporate Insolvency Resolution Process (CIRP)

The facilities of UGML and UVSL were closely intertwined with the railway siding used for transport of raw material and finished goods which was the property of UGML whilst the staff township and the water tanks which

were integral to the unit was the property of UVSL. There were various other linkages of utilities between UGML and UVSL. Considering these synergies and close interlinkages, the value of one unit was totally dependent on the other and hence both the companies required to be resolved in co-ordination to achieve maximization of value.

As a first step towards achieving this objective, the consortium of lenders of both UGML and UVSL agreed to appoint a common interim resolution professional for both UGML and UVSL. The Interim Resolution Professional was then confirmed as the Resolution Professional for both the companies. A petition was filed before the NCLT, Chandigarh Bench in December 2017 by State Bank against UGML in Chandigarh. At the same time State Bank filed a similar application against UVSL before the NCLT Mumbai Bench. In the case of UVSL, an application was submitted by the promoters before the NCLT, Principal Bench, with a prayer for transfer of the UVSL petition from NCLT, Mumbai to NCLT, Chandigarh. However, the NCLT, Principal Bench, ordered transfer of the Company Petition of UGML listed before the NCLT, Chandigarh Bench to the NCLT, Mumbai bench. In terms of aforesaid order, the NCLT, Chandigarh Bench transferred the Company Petition pertaining to UGML to the NCLT, Mumbai Bench which passed orders dated 26th June 2018 and 11th July 2018 admitting UVSL and UGML respectively into CIRP.

In the effort to run a co-ordinated process after the 1st CoC meeting in both the companies. Each of the subsequent 13 CoC meetings held for both the companies conducted over the next 10 months happened on the same days. The Expression of Interests for both the companies were called on the same date i.e., September 24, 2018, the resolution plans were submitted by the bidders on the same date i.e., January 21st, 2019, and then again on March 18th, 2019, for both the companies. As was expected all the bidders made conditional bids in both for both companies making their being declared as a successful bidder in one company as a condition for their bid in the other company. This impediment was brought to the notice of the Adjudicating Authority which allowed the CoC to approve the interlinkage and vote on the conditional plans.

¹ RBI Notification, RBI/2015-16/330 DBR.BP.BC.No.82/21.04.132/2015 -16 Available at <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10293&Mode=0>

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After this the respective resolution plan were approved by the CoC meetings held on April 21st, 2019, for both the companies. The resolution plan submitted by the same bidder was approved resolution plans was approved by the CoC of the respective companies. The application for approval of resolution plans of both UGML and UVSL was submitted to NCLT together on the May 08, 2019, and finally the resolution plans of both the companies were approved by the NCLT together on 6th May 2020 thus successfully culminating probably one of the first co-ordinated CIRP under IBC.

4. Commencement of CIRP

The timing of the admission order of UVSL and UGML could not have come at a worst time. It was just plain unlucky that both the admission orders dated 26th June 2018 and 11th July 2018 were passed during a period when both the plants were in the midst of a planned maintenance shutdown.

This effort put in at the start of the process helped maintain both the companies as going concerns and led to an incremental working capital in the range of INR 400 crores during the CIR period.

This unfortunate timing made the task daunting as the market perception of the companies plummeted as the market felt that the admission order was like curtain for both the companies and the shutdown of the plants were orchestrated with the admission order on purpose. Moreover, this inconvenient timing of the orders also made the working capital situation adverse. The plants had hardly any raw material or finished goods in its inventory. Further as the plants were already operating in a working capital deficient scenario, most of the sale was done with a 7 to 10 days credit cycle and the same had also been monetised.

5. Reception from Employees and Workmen

One of the remarkable points of the CIRP of both the companies was the unequivocal co-operation and respect that the RP and his team received from the entire management and staff. This relationship survived through the entire period of the CIRP.

6. Challenges faced during CIRP

6.1. Challenge to run the Corporate Debtor (CD) as Going Concern (GC): The first challenge which was faced by me as a resolution professional was to restart the plant post the maintenance shutdown.

How was it resolved: The first few weeks were intense and me and my team along with the management team of both the companies were engaged in explaining the meaning of the CIRP to the vendors suppliers and customers of UGML and UVSL. With the support of the existing management, we were able to convince the vendors and the customers about the concept of moratorium and the protection that the CIRP provided to all their credit exposure taken during the CIRP period. With a lot of efforts, the suppliers and vendors were convinced to deliver raw materials on credit to both the plant on credit and the plant restarted production in late July 2018. The efforts of all the stakeholders resulted in a situation where vendors and suppliers took credit exposures to the tune of INR 250 crores in UGML and UVSL post the insolvency commencement date. This effort of communication with the customers increased their confidence to maintain their order books with the companies.

This effort put in at the start of the process helped maintain both the companies as going concerns and led to an incremental contribution in the range of INR 400 crores during the CIR period.

6.2. Payment of GST dues for Moratorium Period

Whilst with the combined efforts of the RP, his team and the existing management, most of the vendors and suppliers co-operated and extended additional credit for both the companies and help it restart, there were certain critical vendors and suppliers who blackmailed and used arm-twisting techniques to recover their dues for the period prior to the insolvency commencement date. Interestingly the biggest beneficiary of these prior period payments was the GST department, whose officers despite the moratorium on both UGML and UVSL threatened to take coercive actions including threats to seal the plants and raid the customers of the companies in their zeal to collect the GST dues of the company pertaining prior to the insolvency commencement date.

Consolidated Summary Uttam Galva Metallics Limited and Uttam Value Steels Limited

Part I : Claims Overview INR in crores

	Particulars	Admitted
1	Financial Creditors (FC)	6,113.58
2	Operational Creditor(OC)	-
3	Non Related Parties	1,050.29
4	Related Party	1,023.06
5	Employees & Workmen	-
6	Any other	-
	Total Claims admitted (1+2+3+4+5)	8,186.93

Part II: Upfront Commitment INR in crores

	Particulars	Admitted
I	Debt infused by Resolution Applicant	515.00
II	Debt infused by ARC	110.00
III	Equity infusion by Resolution Applicant	110.00
IV	Debt infusion by Resolution Applicant	-
	Total Upfront Funds Commitment (I+II+III+IV)	725.00

Part III: Deferred Commitment INR in crores

V	Deferred Payment to FC	1,200.00
VI	Equity share capital offered to FC	5.00
	Total deferred committed value to FC (V+VI)	1,205.00

Part IV: Contingent Value Offered INR in crores

VII	Recovery from trade receivables	198.00
VIII	recovery from Mega incentive receivables upto March 31, 2031	262.00
IX	Recovery from Advance given	256.00
	Contingent value to FC (VII+VIII+IX)	716.00

		INR in crores
	Total value of offer	2,646.00

Resolution Applicant means a consortium of Carval and Nithia

- (i) CVI CVF IV Master Fund II LP, CVI AA Master Fund II LP, CVI AV Master Fund II LP, CVIC Master Fund LP, Carval GCF Master Fund II LP, CarVal GCF Lux Securities S. à r. l., CVIAA Lux Securities S. à r. l., CVIAV Lux Securities S. à r. l., CVI CVF IV Lux Securities S. à r. l. and CVIC Lux Securities Trading S. à r. l. (“Carval”); and
- (ii) Nithia Capital Resources Advisors LLP and Mr. Jai Saraf (“Nithia”)

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How was it Resolved: Interestingly the biggest beneficiary of this pre-CIRP period payment was the GST department, whose officers despite the moratorium on both UGML and UVSL warned to take coercive actions including sealing of the plants and raid the customers of the CD in their zeal to collect the tax dues. If the GST officials had taken any action of sealing, we would have the option to approach the NCLT for stay order. This is because being an Operational Creditor (OC), the tax dues of GST department are also covered under Section 14 of the IBC. The various provisions of the Section 14 provide legal protection to the assets of the CD from previous liabilities, if any. However, at that time in all matters some amount of prior period payments were being made with the approval of the CoC to keep the corporate debtor as a Going Concern (GC). In this matter, the CoC was of the view that conflict approach with the GST officials would have an adverse effect in running the CD as GC. Any litigation with GST would have taken two to three months to be adjudicated and in the meantime GST officials would have sealed the plant. This would have a significant impact on the value of the assets. Hence the NCLT route was not chosen.

After detailed deliberations in the CoC meetings, the CoC took a decision to approve payment of these pre-CIRP period tax dues to ensure both UGML and UVSL are run as GCs and the GST department got benefitted to the extent of more than INR 100 crores which was not in concurrence to the spirit of the IBC.

6.3. Related Party Linkages and Transactions Affecting Operations

As explained above the integrated steel facility was housed across three entities: (a) UGML- The primary steel plant (c) UVSL- The Secondary Steel plant and (c) IPPL- the captive power plant.

This led to a situation where there was a plethora of large value related party transactions viz.

- (a) Almost 100% of the production of UGML was sold to UVSL
- (b) IPPL was the captive supplier of power to UVSL.
- (c) UGML sold coke oven gas to IPPL as fuel by

IPPL for power production.

- (d) IPPL sold steam to UVSL.
- (e) UGML paid lease rent to UVSL for using the railway siding and staff quarters and other facilities.

In addition to these related party transactions, the senior level staff was in the rolls of another group company Taam Galva Steels Limited (“UGSL”) and their costs was allocated across all the four entities.

As is evident from the above, each of these transactions were critical for the functioning of the plant but under the IBC, all these understandings and pricing had to be explained to the CoC and ratified by the CoC and then tracked and reported regularly to maintain transparency and independence. The related parties in this instance were captive to each other and arm’s length pricing was also being done on a cost-plus basis. Furthermore, the option of market pricing was not available as these materials like hot metal at 1400 degrees Centigrade, steam, gas could not have been transported to the plant from a third party. On the power front, comparative pricing studies were conducted using experts to arrive at a reasonable billing price.

How was it resolved: This activity of understanding, validating, and confirming the geniuses of these transactions took a significant amount of time and bandwidth of the RP and the CoC during the entire process but was resolved post receiving CoC approvals for these transactions.

6.4. Bidding Process

The bidding process of both the companies started on September 24, 2018, eight potential resolution applicants had subscribed to the EOI.

After extensions on the request of the prospective resolution applicants on January 21, 2019, two resolution plans each were received for both UGML and UVSL.

Subsequently the CoC declared that the bids received from the resolution applicants were unsatisfactory and proposed a re-bid. Because the period remaining in the CIRP of both the companies was not enough to re-initiate

the bidding from the EOI stage.

How was it resolved: CoC and the RP along with their respective legal advisors interpreted Regulation 36B (7) of the CIRP Regulations and in the interest of value maximization of the companies decided to directly issue an advertisement on February 8th, 2019, without going through the EOI process.

Both the resolution plans were conditional plans, stating that the respective applicant will purchase the companies only if they are selected as the successful bidder for the other company.

7. Resolution Plan for the CD

Finally on March 18, 2019, two resolution plans were received from two applicants for both the companies. One of the resolution applicants was a repeat bidder who had participated in the first round of bidding and the other resolution applicant was one who entered the race in the second round.

Both the resolution plans were conditional plans, stating that the respective applicant will purchase the companies only if they are selected as the successful bidder for the other company.

As the IBC did not give the Resolution Professional powers to declare such conditional bids as compliant, an application was filed by the Resolution Professional, seeking directions from this tribunal to approve the said conditional resolution plans. Vide an Order dated April 1, 2019, this tribunal directed the CoC to analyse the said conditional resolution plans and approve the same if appropriate. It is interesting to note this was the first miscellaneous application which was filed in the entire CIRP of both the companies barring the procedural ones for constitution of the CoC, extension of time period of the CIRP.

On March 29, 2019, the RP on behalf of the CoC intimated the resolution applicant who had entered the bidding in the second round that they had been selected as the sole shortlisted resolution applicant based on the evaluation of the resolution plan. The other bidder after receiving the communication that it had been declared unsuccessful revised its bid and resubmitted the amended plan to the

Resolution Plan. On April 21, 2019, the CoC decided not to consider the amended plan submitted by the other bidder and voted on the resolution plan of the applicant who was declared successful on 29th March 2018.

8. Post-Bidding Litigations

The CIRP of UGML and UVSL was unprecedented in the sense that probably these were the only processes amongst the first list of 12 and 28 cases where there was no litigation from the time of admission till the date of the filing of the resolution plan with the NCLT. This run of good fortune was broken by the flurry of litigants who landed up at the door of the adjudicating authority. Each UGML and UVSL had two litigants each one the unsuccessful bidder and the other the respective largest operational creditor.

The unsuccessful resolution applicant tried hard to find a way around the judgement of the Supreme Court of India in the matter of *K. Shashidhar Vs. Indian Overseas Bank & Others*² which fortified the commercial wisdom of the CoC and the only approach the litigants had was to take shelter behind the allegations of “gross irregularity in the conduct of the process”. The operational creditor on the other hand after losing their fangs basis the judgement of the Supreme court in the judgment of the Supreme Court of India in the matter of *Committee of Creditors of Essar Steel India Limited Vs. Satish Kumar Gupta & Ors*³ matter teamed up with the unsuccessful resolution applicant trying to raise fundamental questions on the conduct of the CIRP by the RP.

After rounds of hearings stretched over hours and days, the Mumbai Bench of NCLT came up with an unprecedented “split” verdict in the matter on 31st December 2019 and the saga moved to the principal bench in New Delhi where after rehearing the matter at length the Principal Bench rejected the claims of the unsuccessful bidder and the operational creditors and held that the conduct of the CIRP was compliant as per Insolvency and Bankruptcy Code, 2016 (IBC) and related regulations. The order was pronounced by the Principal Bench in front of an empty court on the last day before the nationwide lockdown in March 2020.

² Civil Appeal No. 8766-67/2019 and other petitions.

³ Civil Appeal No.10673 of 2018 and other petitions.

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After this affirmation, the resolution plans were heard online during the lockdown in the month of April 2020 and the resolution plans were the first to be approved by the NCLT Chennai Camp Bench in early May 2020 through the online hearing mode. As per the Plan the successful bidder was required to pay an upfront settlement amount and deferred and contingent payments to financial creditors worth Rs 1,567 crore and Rs 1,078 crore, respectively⁴.

The advisors of the RP coordinated with the agency appointed by the successful resolution applicant to verify all assets and inventory of the CD and link them back to the assets as per the financial statements drawn up by the RP as on the CIRP commencement date.

9. Hiatus surrounding the High unpaid CIRP Cost

The CIRP of UGML and UVSL was plagued by the issue of high unpaid CIRP costs. This was on account of two reasons. As explained earlier both the plants were in a maintenance shutdown at the time of the admission into CIRP and lacked any sizeable receivables or inventory. In the absence of any interim finance support the plants were restarted by using the credit period extended by the raw material suppliers as working capital, this always kept the unpaid CIRP cost high during the entire process.

Because of the location of the plant which was away from the traditional coal and iron ore belt the cost of production of the plant was traditionally high and the EBIDTA (Profit) of the plant was only on account of an indirect tax subsidy of 7.5% offered by the Maharashtra government. There was a timing gap of 18 months between the accrual and realization of this said government subsidy. This combination of peculiar circumstances kept the unpaid CIRP costs of the process high although during the CIRP period more than INR 400 crores of incremental assets were built up in the companies. This situation was a cause for concern for the members of the CoC.



This issue was explained in detail to the members of the CoC and in the spirit of transparency the RP requested the CoC members to appoint an independent auditor to review the CIRP costs and validate the twin premise. The RP also agreed to get the unpaid CIRP cost as on the date of approval order certified separately by the statutory auditors of both the companies.

10. Takeover Tantrums

During the implementation period the successful resolution applicant raised questions on the realisability of more than INR 100 crores of customer receivables which was built up during the CIRP period and requested for detailed review of the assets and inventory of the companies in a bid to try and find a way to angle for a discount of the bid price.

Even after the approval of the resolution plan the RP was engaged with the Monitoring Agency of the companies and the customers to ensure realization of the customer receivables during the implementation period. The Monitoring Agency comprised of two representatives of the CoC, two representatives of the Resolution Applicant and an independent expert. The advisors of the RP coordinated with the agency appointed by the successful resolution applicant to verify all assets and inventory of the companies and link it back to the assets as per the financial statements drawn up by the RP as on the insolvency commencement date.

Finally in end December 2020, three years to the day from the day when the insolvency professional had signed the consent form to become the IRP of both the companies, the resolution plan was implemented, and the successful resolution applicant took over the control of the companies after making the payments to the stakeholders bringing down the curtains to an interesting journey leading to the successful resolution of both UGML and UVSL.

⁴ *Bloomber-Quint* (2020): NCLT Approves Resolution Plans For Uttam Galva Metallics, Uttam Value Steels, May 07, Available at <https://www.bloomberquint.com/business/ibc-news-nclt-approves-resolution-plans-for-uttam-galva-metallics-uttam-value-steels>