

Case Study: Performance Analysis of Jhabua Power Ltd. (JPL)

Jhabua Power Limited (JPL), a company originally promoted by Avantha Group, is a power generation company based at Seoni district in the State of Madhya Pradesh. In pursuance of insolvency application filed by an operational creditor, the Kolkata Bench of the National Company Law Tribunal (NCLT) admitted JPL into Corporate Insolvency Resolution Process (CIRP) vide an order on March 27, 2019.

The Committee of Creditors (CoC) in its first meeting appointed Mr. Abhilash Lal as the Resolution Professional (RP) of JPL. He and his support team successfully completed the CIRP of the company. The team, with the support of stakeholders, continued and improved operations of the power plant, reinforcing the going concern status of the Corporate Debtor (CD). This enabled the team to market the company, generate interest and obtain compliant resolution plans before handing it over to NTPC Ltd., the successful resolution applicant (SRA).

The present case study, sponsored by IIIPI, was developed by Mr. Abhilash Lal with his colleagues. In this study, the research team has provided a first-hand step by step guide to resurrect a corporate life.

Read on to know more...



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1. Introduction

Jhabua Power Limited (JPL), a company originally promoted by Avantha Power & Infrastructure Limited (APIL), is a power generation company based in the Seoni district in the State of Madhya Pradesh. The site is located near village Barela - Gorakhpur, Tehsil Ghansore of Seoni District (near Jabalpur). JPL currently has 600MW thermal capacity which is fully operational with potential for a second unit of 600MW at the same site.

During the CIRP, the Resolution Professional (RP) along with his support team not only managed to maintain the company as a Going Concern as per the provisions of the Code, but also successfully transformed business operations leading to superior performance and achieving lifetime high operational and financial milestones.

The RP submitted the resolution plan of the successful resolution applicants (SRA) for consideration of the Adjudicating Authority (AA) i.e., NCLT, Kolkata Bench. The plan had been unanimously approved by all the members of the CoC. Upon approval of the resolution plan application by the AA, the CIRP of the CD was concluded

and the CD was successfully transferred to the SRA. During the transition period, a Monitoring Committee comprising representatives from the lenders and the SRA and headed by the RP, monitored the operations and the transition process as per the approved resolution plan.

This case study discusses the challenges and steps taken for sustained and improved operations thereby facilitating a successful resolution as envisaged under the IBC.

2. Company Profile

- (a) JPL is an Independent Power Producer (IPP) having 600 MW Coal-fired power plant with turnover of ~₹11 billion. It entered into CIRP before even crossing 50% utilization of power generation capacity.
- (b) The plant was commissioned in 2016 with a delay of three years with several critical CAPEX work like Railway siding, Wagon Tippler, Plant Roads, Drains, etc. still incomplete and inadequate essential and mandatory spare parts in its store.

As in the FY2018-19, about ₹335 Cr of term loan was dues from Banks and NBFCs. Besides, ₹90 Cr of Compulsory Convertible Debentures (CCD) were issued in 2013-14.

- (c) At the time of admission into CIRP, JPL had 85% of its power capacity tied up through Long- & Medium-Term Power Purchase Agreements (PPAs) with governments of Madhya Pradesh (MP), Kerala & West Bengal (WB).
- (d) The debt profile and security structure of the CD are provided in Annexure 2.
- (e) JPL was accredited with Quality Management Systems (ISO 9001:2015), Environmental Management Systems (ISO 14001:2015), Occupational Health and Safety Management Systems (ISO 45001:2018) and Energy Management System (ISO 50001:2018).
- (f) The nearest railway siding station is Binaiki, located in the Jabalpur Gondia section of Indian Railways and the nearest airport is at Jabalpur.
- (g) About ₹335 Cr of term loan from Banks and NBFCs as of FY19 and ₹90 Cr of Compulsory Convertible Debentures (CCD) were issued in 2013-14.

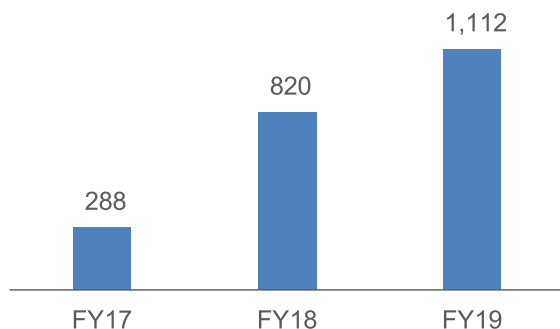
3. Pre-CIRP Performance

- (a) JPL regularly faced the issue of coal availability and hence couldn't ensure full Declared Capacity to the PPA beneficiaries, thus getting a hit on fixed cost tariff invoicing.
- (b) The company faced several arbitrations claims even before entering CIRP, the major one with the key BTG (Boiler Turbine Generator) vendor – BHEL. This led to serious issues with plant maintenance, running and safety.
- (c) JPL struggled in inventory management for mandatory spares due to insufficient cash balance, with inadequate spares for extremely critical machinery e.g., turbine blades which affected plant availability.
- (d) Due to improper budgeting and liquidity crunch, JPL was unable to meet requirements for non O&M and employee engagement expenses.
- (e) With several important capital items left unfinished (roads, rail siding, wagon tippler, drains etc), JPL faced regular issues in normal operations that pushed up the cost of repairs and operations. Coals supply too was erratic and slow due to constraints at the plant end

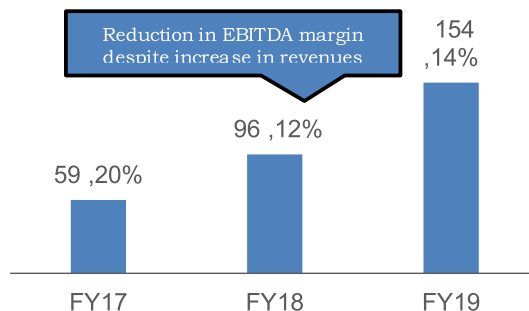
4. Key Reasons for Financial Stress

- (f) Significant delays in start of Commercial Operation of the plant.
- (g) Cost overrun led to a substantial increase in the debt. The debt could not be serviced through the cash inflows and the lenders started charging penal interest which further added to the debt service cost.
- (h) High financing cost of long-term debt (at ~14%) was unsustainable for JPL given its cash flows.
- (i) Low plant availability due to absence of critical spares and incomplete works.
- (j) Working capital constraints to purchase coal & meet operational expenses – addressed through prudent cash management, detailed budgeting and monitoring.

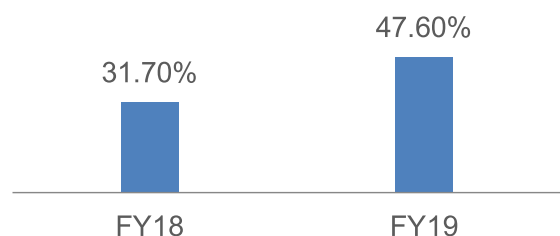
Pre ICD Revenue (₹Cr)



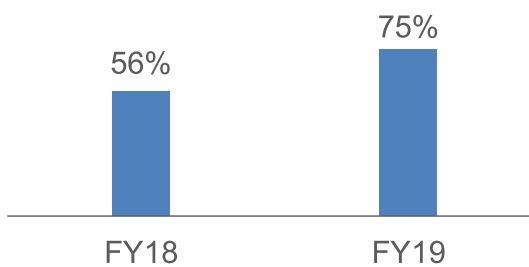
Pre ICD EBITDA (₹Cr,%)



Pre ICD Plant Load Factor (PLF) - in %



Pre ICD Plant Availability - in %



5. Corporate Insolvency Resolution Process (CIRP)

5.1. Appointment of IRP/RP

Pursuant to a Section 9 application filed by M/s FL Smidth Private Limited (Applicant), NCLT Kolkata Bench admitted Jhabua Power Ltd. (JPL) to CIRP in terms of the provisions of the Insolvency and Bankruptcy Code, 2016 (IBC). The CoC of JPL in its first meeting appointed Mr. Abhilash Lal as the Resolution Professional (RP) to replace the erstwhile Interim Resolution Professional (IRP). The entire CIRP was completed with the active support of financial creditors and other stakeholders. The summary of the CIRP timeline is provided in Annexure 1.

5.2. Initial Assessment

- (a) Low Plant Availability due to which company was not able to bill full fixed cost as per the terms of power purchase agreements.
- (b) Interruptions in business operations on account of coal stock-out situations.
- (c) Performance test of Boiler, Turbine and Generator unit was not carried out.
- (d) No support from OEM for obtaining spares &

services support for plant maintenance / overhauling due to ongoing arbitration.

- (e) Private railway siding at JPL was under construction due to which coal was being transported inside the plant by trucks.
- (f) Lack of space in ash dyke for disposal of ash.
- (g) Critical major equipment/facilities like permanent ash silo, condensate polishing unit, standby CW pump, wagon tippers etc., were not ready/commissioned affecting sustained operation of plant at higher load.
- (h) High landed cost of coal due to procurement from market traders due to low allocation of linkage coal.
- (i) Permanent roads and drains were not constructed during plant construction phase causing significant problems in bringing coal & evacuating ash through trucks/dumpers/bulkers thereby affecting scheduled generation of power, especially during monsoon season.
- (j) Huge outstanding receivables from PPA beneficiaries affect the working capital position of the company. To improve the cash position,

alternative revenues sources by supply of power on market/exchanges was explored on near term and short-term basis along with watertight controls on non-critical spends and regular follow-ups with PPA beneficiaries resulted in faster realization of part of the outstanding receivables.

5.3. Role of RP Team

(a) Resolution Process

- (i) Managed operations whilst preparing the company for a competitive bidding process within IBC framework.
- (ii) Managed the resolution process as per requirements of Section 25 of the IBC 2016 viz, Expression of Interest and RFRP document.
- (iii) Set up and maintained a VDR to store data effectively for prospective resolution applicants.
- (iv) Developed the information memorandum as per requirements of Section 29 of the IBC and supplemented the same with a more detailed i-banking document.
- (v) Managed claims database, payment control mechanism and preparation of related MIS for lenders.
- (vi) Ensured that all requirements under the IBC and Regulations were carried out within the stipulated time frame without any conflicts.

(b) Business Operations

- (i) Monitored business activities, plant operations and performance
- (ii) Reviewed the Mega Insurance Risk Policy of Plant for Business Interruption (BI) during MLOP/FLOP and made critical interventions to include BI coverage during Insolvency. Mega Insurance Risk Policy covers any plant against Physical damage to Plant Asset & Equipment and also revenue loss during stoppage of plant due to fire or shutdown of machinery due to any fault.
- (iii) Reviewed existing contracts and finalized strategy for long running contracts

Equipment/facilities like Railway Siding, Wagon Tipplers, Condensate polishing unit, Ash water recovery, Coal Bunker dust suppression system, Plant roads & drains, etc. were not ready/commissioned affecting sustained operation of the plant at higher load.

- (iv) Completed and ensured operational readiness of critical unfinished project capex works during CIRP (funded by internal company cash flows) by effective capex budgeting, representation to CoC for their approval and tracking project progress and performance.
- (v) Made recommendations for optimal inventory management on mandatory spares.

(c) Commercial, Legal & MIS

- (i) Preparation of progress reports for NCLT.
- (ii) Tracking of all statutory compliances of company as going concern
- (iii) Monitoring hearings and legal consultations pertaining to the various ongoing / outstanding petitions / arbitration matters and providing regular updates to COC with advice as to future actions.
- (iv) Maintained trackers of Bank Guarantees issued by JPL to various agencies and also BGs received from vendors under various ongoing WO/PO.
- (v) Detailed monthly MIS to CoC including plant performance parameters, entity-wise landed coal cost & stock, cash flow, monthly billing & payment status under various PPAs, debtors aging, etc.

(d) Cash Flow Management

- (i) Review of monthly cash budget for all operational expenses and ensuring that the budget was adhered to.
- (ii) Actuals tracking to monitor transactions, review collections and manage receivables.
- (iii) Maintained water-tight controls during Work Order / Purchase Order approvals to ensure transparency and follow Nip-in-the-bud procedure at PO/WO stage itself (segregating Opex & Capex).

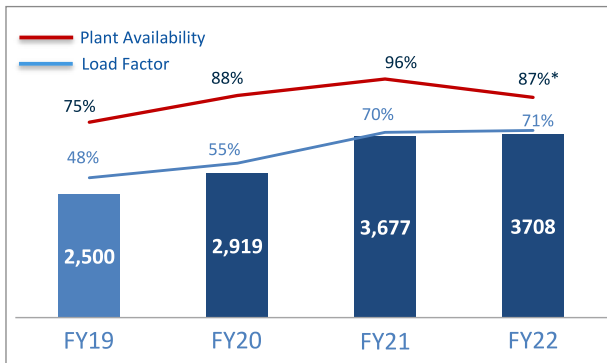
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- (iv) Budget and track non-O&M expenses (CSR, employee engagement, Admin etc.)
- (v) Verify that the funds utilized for business operations and report anomalies.

6. Key Results

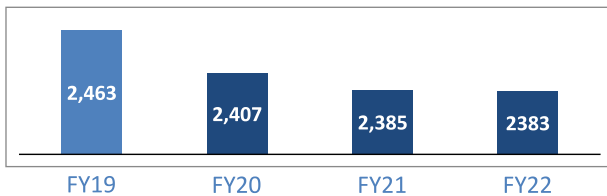
6.1. Improvement in Key Operational Parameters

Higher Power Generation, Improved Plant Availability and Load Factor



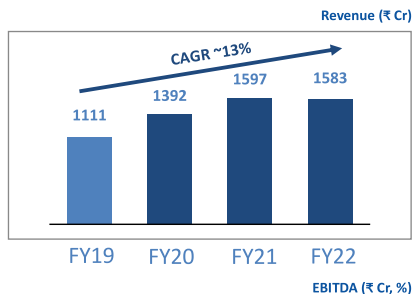
*Plant Availability reduced for FY22 due to planned annual overhaul at plant

Improved Station Heat Rate (KCal/KWH)

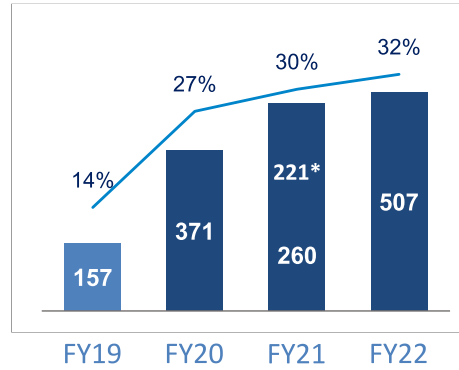


Station Heat Rate: Amount of heat energy required by a thermal power plant to produce 1 unit of electricity. Lesser its value more efficient the power plant

6.2. Improvement in Key Financial Parameters



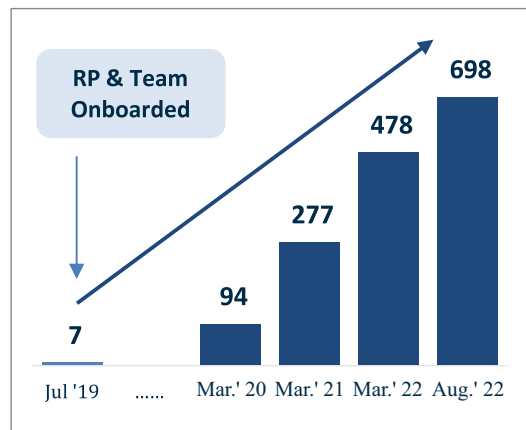
- ~13% YoY CAGR growth (FY19-22) in revenue by optimizing power sale at PPAs and IEX.
- Improvement in fixed tariff recovery from 80% to 96% by ensuring near 100% declared capacity consistently thereby earning full fixed charges under the PPAs.



*Company made provision of ~INR 221 Cr in FY21 for doubtful debts

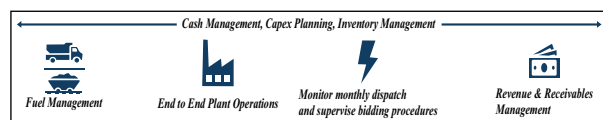
- ~3X growth in EBITDA was noticed at the back of higher revenues and controlled expenses.
- Reduction in landed cost of coal (constitutes 70-75% of total expenses) to ensure higher margins leading to EBITDA improvement.

Cash Balance (₹ Cr)



- Moratorium on interest payments during CIRP period.
- Established strict controls in cash budget.
- Controls at PO approval stage.
- Monitored payments against budgets with daily payment management process.
- Ensured timely payment of all statutory dues & ongoing O&M. expenses during CIRP

7. Key Impact Areas by RP and Team



(a) Systems Establishment

- (a) Set up a process where requests from JPL for every PO/WO (value above ₹1 lakh each) came to RP team for review and clearance.
- (b) Set up robust PO/WO review and MIS with O&M (regular plant and admin) and CAPEX expenses to control spend – *Nip In The Bud* at PO/WO stage itself.
- (c) Established process for PO approval which ensured tightening of spends - getting quotations from at least 3 vendors, detailed and signed Note for Approval (NFA) and Comparable Statement Quotes (CSQ) which contains all important T&C of contract (Landed Cost, Payment terms, Delivery time, warranty, BG etc.), restricting contracts to shorter time frame (3-6 months), unconditional exit clauses, and stores confirmation on current stock level for consumables.

(b) Inventory Management

- (a) JPL used to struggle in inventory management for mandatory spares due to insufficient cash balance, with insufficient spares for extremely critical processes which affected plant availability.
- (b) Identified critical and key inventory requirements and stocking levels, negotiated and purchased critical spares from alternate vendors, set up reorder levels and procedure.
- (c) Post RP team coming on board, the plant had zero delay due to unavailability of spares and consumables without exceeding budget managed with the existing cash balance.

(c) Expense Monitoring

- (a) Tracked and controlled non-essential purchases to reduce overall expenses and to keep it within CERC tariff guidelines for thermal power plants.

(b) Introduced budgeting across functions with clear ownership (Statutory, O&M, Coal & Freight, CAPEX).

(c) Monitored and controlled spends across facilities management, security agencies, payroll and IT hardware and services.

(d) Cash management & Cashflow forecasting ecasting

- (a) Team established cash budget and monthly review with cross functional teams to exercise tight control on payments and inflows.
- (b) Monitored payments against budgets with daily payment management process and actuals tracking.
- (c) Ensured timely payment of all statutory dues & ongoing O&M expenses during CIRP period.
- (d) Provided consistent monthly updates of cashflow and forecast to CoC.

(e) Coal Planning

- (a) Prior to CIRP, JPL regularly faced the issue of coal availability and hence couldn't ensure full declared capacity to the PPA beneficiaries, thus getting a hit on fixed cost tariff invoicing. There was not a single instance of stock-out after the RP team onboarded due to effective cash management and efficient coal planning to account for logistical and operational delays.
- (b) RP team improvised coal planning and tracking system – maintained a coal stock of three to four weeks at site, coordination with coal planning and F&A team, created a visibility for six months, reduced sourcing of poor-quality high-cost MCL coal, managed shifting of coal supply to mine with better quality coal (higher GCV, lower dust), participated in e-auction on landed coal cost basis and nullified the dependence on buying coal from traders, thereby reducing the overall landed cost.
- (c) Third party quality testing for e-auction coal at mines end (as loaded coal).
- (d) RP team assisted fuel management team to set

RP team assisted fuel management team to set up Short Term Open Access (STOA) contracts to set up sales channel via IEX portal, resulting in consistent increase in cash flow.

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(f) Cost Saving

- (a) Coordinated with JPL coal team to ensure maximum loading through direct rail mode and reduction in dependence on road mode – instituted penalties to coal handling agent (CHA) if quality and quantity less than guaranteed.
- (b) Reviewed various contracts for liaison with CIL, coal reconciliation, improving inflow of FSA coal above trigger (above 80% of allotted annual contracted quantity).
- (c) Created contract structure for CHA to incentivise them for loading higher quantity of allotted coal (above 80% of allotted quantity) through rail mode.
- (d) Rationalization of FSA from poor-quality costly coal (MCL) to better-quality cheaper coal (NCL).
- (e) Monitored average landed cost of coal (INR/GCV) regularly to drive higher margins and EBITDA improvement.

(g) Financial & Operational Planning

- (a) Facilitated research and feasibility study for Flue Gas Desulfurization (FGD) & Ash Management.
- (b) Identification and utilization of ash dumping site to ensure compliance with MOE guidelines.
- (c) Developed Annual Business Plan and benchmarks during CIRP process to ensure continuous improvement in performance.
- (d) Carried out two financial audit cycles and oversaw preparation of annual accounts in line with accounting conventions. Subsequently ensured necessary board approvals and conducted AGMs.

(h) CAPEX

- (a) Detailed 6-month, 1-Year and Long-Term capex plans developed for better visibility and prioritizing capex activities – ensured all capex was approved by CoC.
- (b) Finished critical project works - railway siding and electrification, wagon tippler, CPU, Coal Bunker dust extraction system, ventilation system, fire-fighting lines, high mast lighting, railway track fencing, internal and external roads, drains, retaining walls among others - that were unfinished from project phase. All funding met through internal accruals without any additional financing and phasing out capex to match cash flows.
- (c) Commissioning of railway siding and wagon tippler helped in reducing overall landed coal cost, reduced transit losses due to multiple handling of coal and increased supply efficiency.
- (d) Completion of external plant roads helped in better ash evacuation and compliance with regulatory norms.

(i) Employee Engagement

- (a) Carried out replacement hiring and employee reduction to maintain and maximize efficiency in operations
- (b) Carried out two cycles of annual appraisals and duly awarded promotions and increments during CIRP process.
- (c) Conducted regular site/office visits to ensure high morale and maintain connection with on-ground team.
- (d) During the outbreak of Covid-19, ensured availability of medical and accommodation support for all plant personnel.
- (e) Ensured the setting up of canteen and rest rooms for railway siding staff in accordance to Factories and Labor Act.
- (f) During CIRP period, multiple awards and recognitions awarded to JPL employees for outstanding performance.

(j) Corporate Social Responsibility (CSR)

- (a) Established contracts for CSR funding via Institute for Development of Youth, Women and Child & BAIF Development Research Foundation while company was under CIRP.
- (b) As a part of CSR program, provided funding toward the following initiatives
- (c) Provided revolving funds to self-help groups (in convergence with govt. scheme) for their income generation activities.
- (d) Organized school level competitions for students & provided electronic panels for smart classes.
- (e) Provided health infrastructure support to Govt. Institutions like Nutritional Re-Habilitation Centers etc.

what are critical aspects to be focused while handling CIRP of Power Companies

- (a) Developing understanding of the company's PPA and other short term power supply obligations
- (b) Assessment of PAF to avail full fixed cost per the terms of the PPA.
- (c) Assessment of alternate sources of coal and to undertake coal rationalization, if possible
- (d) Planning of major and minor overhauls for compliance with critical licenses
- (e) Close monitoring of the ash disposal activities followed by the Company in line with environmental norms
- (f) Tracking of landed coal cost and contracted GCV to ensure timely receipt of compensation for grade slippages, if any
- (g) Analysis of stock levels of mandatory spare parts as recommended by the OEMs.

8. Learnings from CIRP of power companies and

Annexure 1: CIRP / Timeline of Key Operational Milestones

Event	Date
JPL was admitted to CIRP under IBC by an Operational Creditor u/s 9	March 27, 2019
Abhilash Lal appointed as RP by NCLT	July 25, 2019
Alvarez and Marsal team onboarded as RP Team	July 29, 2019
Submission of resolution plan by NTPC & Adani	December 30, 2019
Negotiation process ~16 months; Multiple revisions in plans; 29A verification, PPA & Liquidation Valuation issues	Jan 2020 – May 2021
Submission of resolution plan to NCLT (with 100% CoC approval)	June 30, 2021
Approval of resolution plan by NCLT and setting up of Monitoring Committee	July 06, 2022
Completion of Transfer to SRA	September 5, 2022



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Annexure 2: Claims – Financial Creditors

Claims Filed			Claims Payout			
#	Creditor Name	Amount Claimed	Upfront Amount	NCD	Equity	Recovery %
1	AVANTHA POWER & INFRASTRUCTURE LIMITED*	1,482,295,897	-	-	-	NA
2	AXIS BANK LIMITED	4,735,830,922	805,048,717	533,811,599	289,147,950	34%
3	BANK OF INDIA	3,365,289,725	625,358,574	414,662,683	224,608,953	38%
4	LIFE INSURANCE CORPORATION	2,305,201,480	428,366,539	284,041,229	153,855,666	38%
5	POWER FINANCE CORPORATION	10,345,000,000	1,922,370,726	1,274,685,332	690,454,555	38%
6	PUNJAB NATIONAL BANK	6,187,893,008	1,149,857,443	762,447,325	412,992,301	38%
7	RURAL ELECTRIFICATION CORPORATION	4,178,008,558	776,382,924	514,803,889	278,852,106	38%
8	STATE BANK OF INDIA	7,320,319,511	1,360,306,228	901,991,678	488,578,826	38%
9	UCO BANK	3,411,861,259	614,501,042	407,463,271	220,709,272	36%
10	UNION BANK OF INDIA	7,353,604,683	1,366,491,481	906,092,995	490,800,372	38%
	Total	49,203,009,147	9,048,683,674	6,000,000,000	3,250,000,000	

* Avantha Power – related party – unsecured creditor. All other creditors had pari passu charge on fixed and current assets.

Annexure 3: Claims – Other Creditors

Claims Filed			Claims Payout	Recovery %
Category	# of claims	Amount of Claim Admitted	Amount Paid	
Workmen	1	1,316,326	1,316,326	100%
Operational Creditors	57	1,071,043,234	200,000,000	19%

