

Resolution of Ideal Energy Projects Limited: A Successful CIRP in the face of Adversity

Ideal Energy Projects Limited (IEPL), the Corporate Debtor, incorporated in 2008, decided to establish a 270 MW coal-based thermal power project in Maharashtra with an estimated cost of ₹1,477 crores for which it secured funding through a consortium of banks. The project was set up as expandable to 540 MW.

However, due to adverse situations such as lack of Power Purchase Agreements (PPAs), coal linkages, high coal price and low realization per unit of electricity generated in the open market, the Company was forced to close the operations only after 50 days of trial. Thereafter, the project was shut down for five years and no operational Profit and Loss Account was ever prepared before the commencement of the Corporate Insolvency Resolution Process (CIRP) on February 17, 2020.

*The CIRP of IEPL was conducted amidst the challenges of the COVID-19 pandemic and a declining thermal power sector, posed a formidable task for the Resolution Professional (RP). The financial creditors had submitted claims amounting to ₹3,188 crores. As no financial assistance was received from the CoC, the RP had to arrange interim finances from his own sources to fund the operationalization of the Corporate Debtor. After several rounds of negotiations, an initiation offering of ₹160 crores resulted in the Resolution Plan of ₹387 crores. In the present case study, the Resolution Professional Mr. Anil Goel delves into IEPL's journey, highlighting the challenges faced during the CIRP and its status in the power sector of India. **Read on to know more...***



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1. Introduction

On a momentous day in August 2023, the Resolution Professional (RP) attended a jubilant gathering at the site of Ideal Energy Projects Limited (IEPL), witnessing a remarkable transformation. Invited by the directors of Manas Agro Industries & Infrastructure Limited, the Successful Resolution Applicant (SRA) for IEPL, the RP stood witness to the reawakening of a once ailing entity. As the sun cast its rays upon the revived 270 MW Thermal Power Plant in Bela, Khursaoar, Nagpur, Maharashtra, he couldn't help but reminisce about its bleak past—a dilapidated state that had rendered it dormant and desolate for more than five years.

The occasion was graced by the esteemed presence of Shri Nitin Gadkari, Hon'ble Minister for Road Transport & Highways, Government of India. Emotions surged, as the RP beheld over 2000 industrious workers, well-wishers and friends of the SRA witnessing 270 MW Thermal Plant breathing life again after struggling in ICU for more than eight years. The event of *Pooja* (worship) and thanksgiving event culminated in a triumphant moment as the facility

CASE STUDY
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surged to its maximum electricity generation capacity on that day also.

The words of Shri Gadkari, extolling the success of the Insolvency and Bankruptcy Code, 2016 (IBC) and acknowledging the RP's role in this resurrection, stirred a deep sense of pride within the RP, igniting the inspiration to chronicle the astounding journey of this revitalization process.

Motivated by these pivotal moments and inspired by the recognition of the journey's significance, the RP resolved to craft a comprehensive success story, detailing the intricate process that led to the reinvigoration of the IEPL under the purview of the IBC.

The IBC, introduced by the Indian government, has been instrumental in revitalizing financially distressed companies and industries, providing them with a second chance to survive. The success story of the IEPL exemplifies the transformative power of the IBC, as it emerged from the brink of insolvency to not only recover financial stability but also achieve full capacity under new management.

2. Initial challenges to the Corporate Debtor and reasons of Default

IEPL, incorporated in 2008, embarked on an ambitious venture to establish a 270 MW coal-based thermal power project Near Bela Village of Nagpur, Maharashtra. With an estimated cost of ₹1,477 crores, IEPL secured funding through a consortium arrangement involving six public sector banks namely Canara Bank (Lead Bank), Andhra Bank, Corporation Bank, Union Bank of India & Punjab National Bank. The project was set up as expandable to 540 MW capacity and all ancillary infrastructure and utilities were planned accordingly.

However, the company encountered several obstacles that led to its financial distress. Some of the reasons for financial stress of the Corporate Debtor are as under:

- (a) **Change in Government Policy:** A shift in government policy for allocating coal linkage to Independent Power Producers (IPPs) and the absence of Long-Term Power Purchase Agreements (PPAs) posed significant challenges.
- (b) **Non-Availability of Transmission Corridor:** IEPL faced difficulties due to the lack of power-transmission corridors.

- (c) **High Cost of Imported Coal:** Rising costs of imported coal and fluctuations in the e-Auction coal market impacted IEPL's profitability.
- (d) **Deteriorating Financial Health of Discoms:** The financial instability of state and central power distribution companies (Discoms) exacerbated IEPL's problems.

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The Corporate Debtor (IEPL) closed operations after 50 days of trial operations for want of PPA, Coal Linkages, and unviable market conditions because of high price of coal and low realization per unit of electricity generated in the open market.

A project ready for electricity generation was kept closed for five years and no operational Profit and Loss Account was ever prepared before the commencement of CIRP. The project could never start commercial generation of electricity.

3. Corporate Insolvency Resolution Process, under IBC, 2016

IEPL entered the Corporate Insolvency Resolution Process (CIRP) on February 17, 2020, with Mr. Anil Goel, appointed as the Interim Resolution Professional (IRP) who was subsequently confirmed as the Resolution Professional (RP) of the CD. The CIRP, conducted amidst the challenges of the COVID-19 pandemic and a declining thermal power sector, posed a formidable task for the RP. The valuation process was delayed as appointed valuers were not ready to travel during the peak of Covid-19. Similarly, the maintenance team of the Corporate Debtor could not continue maintenance partially because of Covid-19 restrictions and partially because the Corporate Debtor had no funds to make payment of their salaries and wages.

The Financial Creditors had submitted claims totaling ₹3,188 crores, reflecting the magnitude of IEPL's financial troubles.

The RP oversaw 24 Committee of Creditors (CoC) meetings and engaged in extensive marketing efforts, publishing the Expression of Interest (EOI) multiple

times. Ultimately, two resolution plans were received from M/s. Manas Agro Industries & Infrastructure Limited (M/s Manas Agro) and Manikaran Power Limited (MPL). Intensive negotiations took place from January 18, 2021, to August 14, 2021, to enhance the offers and achieve the best possible outcome.

During the course of the CIRP, a series of CoC meetings were convened on different dates. These meetings involved discussions with multiple resolution applicants who presented their proposals to address the financial distress of the company in question.

(a) First Rejection of the Resolution Plan

In the initial 11th CoC meeting held on January 18, 2021, M/S Manas Agro proposed a resolution plan amounting to ₹160 crores, while MPL offered ₹135.50 crores.

These amounts were negotiated by the RP and COC multiple times from the 12th Meeting to the 16th meeting. Subsequently, in the 17th CoC meeting conducted on April 15, 2021, M/S Manas Agro put forth a revised Resolution Plan, offering ₹200 crores, and MPL increased its offer to ₹160.50 crores which were both put up for voting. However, both the plans were rejected by CoC via e-voting.

(b) Second Rejection of the Resolution Plan

As the CIRP and negotiations progressed, more CoC meetings were held. In the 20th CoC meeting on June 22, 2021, M/S Manas Agro proposed a significantly higher resolution plan of ₹352 crores, while MPL offered ₹315.79 crores. These resolution plans were again put up for e-voting, however, neither plan secured enough votes to be approved.

(c) Third Rejection of Resolution Plans

This trend continued in the 22nd CoC meeting on July 14, 2021, where M/S Manas Agro increased their proposal to ₹372 crores, and MPL maintained their offer at ₹315.79 crores. Both the plans were again put up for voting but failed to secure the required vote.

(d) Final approval to the Resolution Plan

In the 24th CoC meeting on August 13, 2021, after multiple negotiations by the RP and the CoC, M/S Manas Agro offered ₹387 crores, while MPL's proposal remained at ₹315.79 crores. The Resolution Plan submitted by Manas

In the 20th CoC meeting on June 22, 2021, M/S Manas Agro proposed a significantly higher resolution plan of ₹352 crores, while MPL offered ₹315.79 crores. However, both the plans were rejected by the CoC.

Agro was finally approved with 100% voting and the CIRP of the Corporate Debtor finally culminated in a resounding success.

4. How stressful was the entire Journey for the Resolution Professional

- (a) The entire CIRP was conducted during peak Covid-19 pandemic.
- (b) The power sector in India was grappling with sluggish growth, stranded thermal plant capacities, a lack of PPAs, and low tariff rates during the entire period of CIRP. The rise of renewable energy sources had further challenged the prospects of thermal power plants. The decrease in the number of tenders released by Discoms for new thermal plant tie-ups has compounded the sector's woes. It had been a real challenge to find a Prospective Resolution Applicant willing to put forth a proposal acceptable to the CoC.
- (c) As the Corporate Debtor had never declared commercial production, no profit and loss account were prepared for the operations of the power plant. Therefore, no brought forward losses were assessed by the Income-tax Department. The Resolution Applicants were apprehensive of income tax implication u/s 41(1) of the Income-tax Act for cessation and remission of liabilities under the Resolution Plan.
- (d) The Corporate Debtor had no funds for making payment of salaries and workers, however, their continuation was important for regular maintenance of the Plant. Without maintenance the value of the project would have diminished substantially.
- (e) The CoC did not contribute towards CIRP cost including the need for making payment to maintenance and Power Grid staff. Power Grid was functional as some part of electricity supply was using the Grid set up by the Corporate Debtor.

- (f) Resolution Professional raised small amount of interim finance to make payment of few professionals and minimum survival small amount to workmen and employees.
- (g) An application by RP before Adjudicating Authority (AA) seeking directions to CoC for making contribution for CIRP cost could not bring any results.
- (h) Workers and employees filed various complaints before IBBI, IPA, Prime Minister's Office (PMO), etc. against the RP as he could not arrange funds for their salaries and wages. The RP could not remove them to protect the value of assets of the Corporate Debtor.

As the CoC did not contribute towards CIRP costs including the need for making payment to maintenance and payment to the Power Grid staff, the RP raised some interim finance for payment to a few professionals and minimum survival amount to workmen and employees.

- (i) Workers and employees filed various police complaints against the RP at various police stations in Nagpur. After the police complaints and threats from workers, the RP could not visit Nagpur Plant for inspection etc., fearing threat to life or body injury.
- (j) Various virtual meetings took place with the representatives of workmen and employees and relationship between RP and the workmen was normalized.
- (k) The RP could not draw any fee during the entire period of CIRP. During the CIRP, the RP invested from his own sources and also for all his expenses. Thus, the RP could recover his fee and expenses after 800 days from commencement of CIRP.
- (l) The Resolution Applicant proposed assignment of entire debt on payment of agreed amount in the Resolution Plan to circumvent the tax implication u/s 41(1) of the Income Tax Act for cessation and remission of various liabilities in the Resolution Plan.

5. The Resolution Plan: A Lifeline for IEPL

M/S Manas Agro, the Successful Resolution Applicant, crafted a comprehensive Resolution Plan that addressed

the myriad financial challenges being faced by IEPL. The plan, approved by the NCLT, Mumbai Bench, on March 01, 2022, offered a multi-faceted approach to revive the company. The entire resolution process took 743 days including the time taken by the AA for approval of the resolution plan and three rejections of resolution plan by the CoC through e-voting,

(a) Key components of the Resolution Plan

The total settlement amount in the Resolution plan was ₹387 crores, paying ₹360 crores to financial creditors. The operational creditors were allocated ₹1.27 crores, the Plan allocated ₹0.73 crores to employees and the balance amount was wages and salaries for CIRP period, CIRP Cost and statutory dues.

(b) An experiment on Assignment of Debt

The Resolution Applicant was guided that IEPL is not having the benefit of brought forward losses under Income Tax law and in case liabilities are removed from books of account of the Corporate Debtor consequent to approval of the Resolution Plan by the AA it would be considered as cessation and remission of liabilities and would attract levy of Income Tax as per Section 41(1) and Section 28(iv) of the Income Tax Act.

To provide a solution to this tax complexity, the RP proposed assignment of entire debt of banks to Successful Resolution Applicant as against haircut and final settlement of debt in the Resolution Plan.

It was a herculean task to convince sanctioning authorities of banks about the assignment as it was first time for them, and it took substantial time to get positive opinion from their respective legal departments.

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(c) Implementation of the Resolution Plan

The Monitoring Committee played a pivotal role in supervising the implementation of the Resolution Plan. This committee ensured that the agreed-upon terms and actions were executed smoothly and transparently. The members of this committee were:

- (i) **The RP as the Chairman of Monitoring Committee:** As the leader of the Monitoring Committee, the RP brought his extensive expertise in insolvency proceedings to oversee IEPL's resolution and implementation process.
 - (ii) **Canara Bank, Representatives of Lenders' Member:** Canara Bank, representing the financial creditors, participated actively in the Monitoring Committee. Their presence ensured that the interests of the lending institutions were adequately safeguarded during the resolution.
 - (iii) **Mr. Uday Kamat, Representative of the Resolution Applicant:** Mr. Uday Kamat represented the Successful Resolution Application M/s Manas Agro. His role was crucial in aligning the actions of the Successful Resolution Applicant as per the terms and conditions of the Resolution Plan.
- (d) **Supervision and Oversight:** The Monitoring Committee conducted seven meetings, reflecting the dedication and diligence with which they oversaw the resolution process. These meetings served as a platform for reviewing progress, addressing challenges, and ensuring compliance of the Resolution Plan.
- (e) **Fund Disbursement:** A critical aspect of the resolution process involves the disbursement of funds as outlined in the approved Resolution Plan. The disbursement of funds was executed in two phases:
- (i) **Disbursement on June 28, 2022:** In the first tranche, an amount of ₹30 Crore was deposited into the bank account maintained with IDBI Bank on June 28, 2022. Subsequently, these funds were disbursed to the existing lenders in accordance with their voting share. This initial

disbursement marked a significant step in implementing the Resolution Plan.

- (ii) **Disbursement on July 1, 2023:** The second and final tranche of disbursement amounted to ₹315 Crore. These funds were deposited in the bank account maintained with IDBI Bank on July 1, 2023.

The meticulous handling of fund disbursement by the Monitoring Committee and the adherence to the agreed timelines underscored the commitment to the Successful Resolution Applicant of IEPL. It highlighted the transparency and accountability embedded in the IBC's framework, ensuring that all stakeholders' interests were duly addressed and executed as per the approved Resolution Plan.

Despite the challenges posed by changing government policies, market dynamics, and the global pandemic, the Corporate Debtor has emerged stronger in the post-resolution period, with a renewed commitment to India's power sector.

6. Conclusion

The IEPL's successful resolution under the IBC, 2016, showcases the IBC's effectiveness in rescuing companies from financial distress. Despite the challenges posed by changing government policies, market dynamics, and the global pandemic, the Corporate Debtor has emerged stronger, with a renewed commitment to India's power sector. The success of this resolution process can be adjudged not only from the recovery of the financial creditors but from the fact that despite the economic climate for the thermal power sector and the constant failures experienced by the company prior to the CIRP, it is now fully operational and generating electricity at full capacity. This success story serves as an inspiration for other companies facing financial crises, illustrating that with determination, effective resolution planning, and the IBC's support, a path to recovery is indeed possible.