



**INSOLVENCY PROFESSIONAL AGENCY
OF INSTITUTE OF COST ACCOUNTANTS OF INDIA**

Casebook Issue 38:

**Insolvency Tale of
Garden Silk Mills
Limited**

**INSOLVENCY
UNCOVERED**

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About Garden Silk Mills Limited (“GSML”)¹

Garden Silk Mills Ltd was incorporated in the year 1979 as a private limited company under the name and style of Vareli Weaves Pvt Ltd. The company was established with the main object of manufacturing synthetic textiles. They became a public limited company on July 17, 1987. In the year 1987, Garden Silk Mills Pvt Ltd, Prabhat Silk & Cotton Mills Co Ltd, Garden Print Centre Pvt Ltd and Special Weaves Ltd were amalgamated with the company and the name was changed to Garden Silk Mills Ltd with effect from June 4, 1987. In addition, Jayshree Filaments Ltd was amalgamated with the company with effect from April 18, 1987.

Garden and Garden Vareli are the brand names of Garden Silk Mills Limited, a company dedicated for more than 80 years to the design and creation of high-quality textile prints, fabrics and textile intermediates for consumers and businesses. Garden Vareli today is in the forefront of modern Indian textile design by creating innovative products of exacting quality and beauty, with the highest levels of customer service in the industry. Garden Vareli’s network of 70 dealers and 90 retail shops coordinate 480 points-of-sale in India and worldwide. The company currently exports to a rapidly growing list of more than 20 countries in Europe, the Middle East, Asia and North and South America.

It has its registered office at Tulsi Krupa Arcade, 1st Floor, Puna-Kumbharia Road, Dumbhal, Surat, Gujarat- 395010. Its Authorised Capital is Rs. 60.00 crores and Paid-up Capital is Rs. 42.08 crores.

Major Financial Creditors/Bankers²

Golden Silk Mills Limited had Invent Asset Securitisation and Reconstruction Private Limited and Bank of India as Financial Creditors. Invent Asset Securitisation and Reconstruction Private Limited with Highest exposure and 100% voting power as per the latest List of Creditors.

CIRP of Garden Silk Mills Limited

Invent Assets Securitisation and Reconstruction Private Limited files application in National Company Law Tribunal (“NCLT”)³

Invent Assets Securitisation and Reconstruction Private Limited (“**Applicant**”) filed an application under section 7 of the Insolvency and Bankruptcy Code, 2016 (“**Code**”) read with Rule 4 of the Insolvency and Bankruptcy (Application to Adjudicating Authority) Rule, 2016 for initiating the insolvency resolution process against Garden Silk Mills Limited.

During hearing, the Learned Senior Counsel for the Corporate Debtor fairly admitted that Corporate Debtor has outstanding debt due and payable to the Financial Creditor. Learned Senior Counsel for the Corporate Debtor stated that an IA had been filed challenging the maintainability to this Application, which had now become infructuous, hence not pressed for. The Financial Creditor proposed the name of Mr. Kuresh Khambati to act as Interim Resolution Professional (“**IRP**”). NCLT after hearing both the parties admitted the CIRP against GSML.

RP files application in NCLT for approval of Resolution Plan⁴

CoC in its 6th meeting dated 23rd September, 2020 approved the resolution plan by 100% votes. The Resolution Professional has given requisite certificate that the Resolution Plan complies with all requirements of Section 30(2) of the Insolvency & Bankruptcy Code, 2016 r.w. relevant Corporate Insolvency Resolution Process Regulations. The perusal of the Resolution Plan shows that the Financial Plan shows that the Financial Creditor will get a sum of Rs.717.50 Crores as against the total admitted claims of Rs. 512.66 Crores. Thus, in sum and substance, the resolution plan provides for settlement of claim of various stakeholders. It is also noted that the Resolution Plan provides the background of successful Resolution Application and its associates.

The Salient features of resolution plan are as follows:

It has been stated that following steps shall take place in the order of sequence as an integral part of the Resolution Plan:

1) Delisting

As an integral part of the Resolution Plan and with effect from the date of the delisting prescribed by the BSE Limited and National Stock Exchange of India Limited, the equity shares of the Corporate Debtor, shall be delisted from BSE Limited and National Stock Exchange of India Limited in accordance with the order of the NCLT read with Regulation 3(3) of the SEBI (Delisting of Equity Shares) Regulations, 2009

2) Capitalization of SPV

The Resolution Applicant shall infuse amounts up to the Total Discharge Amount in one or more tranches into the SPV, either by way of equity or debt or a combination of both as may be deemed suitable. Subsequent to infusion of amounts towards the New Equity Shares of the Corporate Debtor, or such earlier date as may be agreed between the Steering Committee, the nominees of the Resolution Applicant shall be appointed as the directors of the Corporate Debtor and the existing Board shall stand vacated.

3) Capital Reduction

Simultaneous upon issuance of the New Equity Shares as contemplated above, and as an integral part of the Resolution Plan the entire issued, subscribed and paid up equity share capital of the Corporate Debtor (excluding the New Equity shares allotted to the SPV) shall stand extinguished in full without payment of any consideration 100% of the equity share capital of the Corporate Debtor post such reduction shall be held by the SPV (and/ or its nominees). The requirement of adding and reduced in the name of the Corporate Debtor shall stand dispensed with.

4) Assignment of Debt

Within 90 (ninety) Business Days of the Effective Date, but prior to the Merger, the entire Claims and Admitted Debt of the Financial Creditor shall stand sold, assigned, transferred and released to and unto the SPV as the Assignee, including the Debt Collateral, by virtue of this Resolution Plan and in exchange for the FC Consideration paid to the Financial Creditor on the date of assignment.

5) Merger of SPV with Corporate Debtor

5.1 Immediately upon implementation of the aforesaid steps and as an integral part of the Resolution Plan, the SPV (transferor company will merge with the Corporate Debtor transferee company) ("Merger). Below are the broad contours of the scheme of amalgamation:

5.2. Any and all assets, liabilities, rights and obligations of the SPV, as the transferor company, will be transferred to and vested in the Corporate Debtor, as the assets, liabilities, rights and obligations of the NPV, as the transferor company, will become the annets, liabilities, rights and obligations of the Corporate Debtor, as the transferee company

5.3. Upon Merger, inter company loans and advances will be cancelled and difference on account of the same will credited either to the Capital Reserve or debited to the goodwill, as the case may be.

5.4. The authorized share capital of transferor company will be mere he authorized share capital of the Corporate Debtor as the transferee company. The Corporate Debtor will be entitled to take the benefit of the stamp duty and registration fees already paid by the SPV, as the transferor company, on its authorized share capital.

5.5 The SPV, as the transferor company, will stand dissolved without winding up

5.6, In consideration of the Merger, the Corporate Debtor, as the transferee company shall issue its equity shares to the equity shareholders of the SPV in accordance with the following share exchange ratio: for every 1 equity share having face value of INR 10 each held in the SPV, the equity shareholders of the SPV will be issued 1 equity share of the Corporate Debtor having face value of INR10 each held in the SPV

5.6. Further, in terms of the IBM, the shareholders of the Corporate transactions contemplated under of 13/32 Plan including the Merger shall be deemed to have been given on the Approval Date

5.7. The Resolution Applicant will hold 100% of the total equity share capital of the Corporate Debtor ti.e. the amalgamated entity upon effectiveness of the Capital Reduction and the Merger.

It has also been stated that the Corporate Debtor shall stand converted from a public limited company into a private limited Company and the Memorandum of Association and the Articles of Association of the Company shall be automatically, without any further act or deed, be substituted and replaced with the form of memorandum of association and articles of association (the "New Charter Documents") as set out in Annexure A of the scheme).

The summary of the payments proposed to be made under the Resolution Plan is as under:

Sr No.	Description	Amount (in INR Lakh)
1.	Total Discharge amount	Not exceeding and up to INR 747,00,00,000 (Indian Rupees Seven Hundred and Forty Seven Crore)
2.	Proposal for Financial Creditor	An amount of INR 717,50,00,000 (Indian Rupees Seven Hundred and Seventeen Crore and Fifty Lakh) ("FC"

		<p>Consideration) subject to adjustments, if any, towards payment of (i) Balance CIRP Costs (ii) Differential OC Discharge Amount (as defined in the Resolution Plan); and (iii) payment to dissenting Financial Creditor (if any), (hereinafter collectively referred to as the "Adjustment Amounts").</p>
3.	Proposal for Operational Creditors (Workmen and Employees)	INR 8,50,00,000 (Indian Rupees Eight Crore and Fifty Lakh)
4.	Proposal for Operational Creditors (Statutory Dues, liabilities including outstanding Governmental Authority dues, Taxes, etc.)	Nil

5.	Proposal for Operational Creditors (Other than Workmen and Employees and Statutory Dues)	An ex-gratia amount up to INR 21,00,00,000 (Indian Rupees Twenty One Crore)
6.	Proposal for Dissenting Financial Creditors	Since there is only one financial Creditor as per the IM, no provision for dissenting financial creditors has been made. However, in case there is any, such financial creditor shall be paid an amount as prescribed under Section 30(2)(b) of the Code and in priority over payments to assenting Financial Creditors out of the FC Consideration.
7.	Proposal for other stakeholders (including public shareholders and other creditors)	Nil

8.	Proposal for Related Parties	The Resolution Plan does not propose any payment to the Related Parties of the Corporate Debtor other than those forming part of Balance CIRP Costs approved by the COC or the Resolution Professional.
9.	Working capital infusion	As and when necessary to the extent decided by the Resolution Applicant

Bibliography

¹ <http://www.mca.gov.in/mcafoportal/companyLLPMasterData.do>

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<https://www.gardenvareli.com/pages/about-us/pgid-264074.aspx>

²[https://storage.sg.content-cdn.io/in-resources/a8698a90-ed16-4a3a-a06d-](https://storage.sg.content-cdn.io/in-resources/a8698a90-ed16-4a3a-a06d-0aca1ae1e4b1/Images/userimages/GSML_List%20of%20Creditors%20-%20Version%206.pdf)

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³<https://ibbi.gov.in/uploads/order/3e4800ed9f006753ce9bd31463db45db.pdf>

⁴ <https://ibbi.gov.in/uploads/order/4056cc21cf4bee2274ca662d61b8fd53.pdf>