INSOLVENCY PROFESSIONAL AGENCY
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Performance analysis of BHUSHAN STEEL LIMITED

Pre, During and Post CIRP
A case study

Bhushan
POWER & STEEL

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Company Profile

Bhushan Steel Ltd was incorporated in1983 with the name Jawahar Metal Industries Pvt Ltd. In 1987, Brij Bhushan Singal and his sons Sanjay Singal, Neeraj Singal and associate companies took over the management of the company by acquiring the entire stake. In the year 1989, the company became a deemed public limited company. In the year 1992, the company was renamed as Bhushan Steel and Strips Ltd after diversifying into wide-width cold-rolled (CR) steel strips. Also, they completed the cold rolling plant during the year. In the year 1993, the company came out with their first public issue to finance their forward integration project for the manufacture of 1,00,000 tpa of continuous annealed/ galvanised steel strips.

In the year 2000, the company approved the amalgamation of Bhushan Ltd with the company. In the year 2001, the company implemented the expansion project of 2,50,000 TPA of Cold Rolling Cum Galvanising & Tube Complex in Khopoli, Maharashtra at cost of Rs 4860 million. In the year 2003, they entered into a strategic alliance with Sumitomo Metal Industries of Japan for the process know-how for manufacturing of automotive steel sheets.During the year 2004-05, the company commissioned the Cold Rolled (Narrow) and Pipe plant at Sahibabad. During the year 2005-2006, the company commissioned the Galume line, an aluminium and zinc coated patented product of the company for the first time in the country at Khapoli plant. The company changed its name from Bhushan Steel and Strips Ltd to Bhushan Steel Ltd with effect from April 12, 2007.

During the year 2007-08, the company successfully completed Phase I of the Orissa Project. The company started the production facilities of Sponge Iron (680000 tpa), Billets (300000 tpa) and Power Plant (110 MW) thus completing Phase-I of Orissa Project on schedule. The company acquired a major stake in Bowen Energy Ltd of Australia. Additionally, through their 100% subsidiary Bhushan Steel (Australia) Pty Ltd, the company entered into a JV to develop their coking coal/thermal coal projects in Australia. The company incorporated two wholly owned subsidiaries namely Bhushan Steel (Australia) Pty Ltd and Bhushan Steel Global FZE.During the year 2008-09, the company successfully commissioned the Cold Rolling Mill (narrow) 50000 tpa, Tube Mill (40000 tpa) and balancing equipment viz. Pass Mill, CR sillter, Cut to Length Line and annealing furnaces etc. at existing Khapoli Plant.

The group grew quickly by importing sophisticated Japanese machinery to make steel for India's nascent automobile industry. But "Bhushan Steel's control over availability, quality and cost of input steel was very limited," (Source : company's 2009-10 annual report). So in 2003, they decided to build an integrated steel plant in Odisha. This was a time of great optimism for the steel sector. Banks were eager to lend to a company with an impressive order book of clients like Maruti Suzuki, Mahindra and Mahindra, and Tata Motors. "Banks were getting into project finance for the first time," But steel is a cyclical business, and as Chinese demand tapered after the 2008 Olympics, prices plummeted as fast as they had once peaked.For Bhushan Steel, it was a gust of headwind. "In a slowdown, steel demand in India doesn't drop. Prices do, with debt you grow big fast, but when bad times come, the debt suddenly becomes a massive burden.

By 2010, Bhushan Steel was already shouldering loans worth Rs.11,404 crore. Still, the company went on a borrowing spree to finance the next phase of construction.By 2012, the steel industry was slipping behind on interest payments as steel prices fell to $300/tonne that December from a 2008 peak of $1265/tonne.Banks were conflicted: pull the loans and book a loss, or keep lending and hope the sector revived. Bhushan's lenders pinned their hopes on the Odisha plant reaching full capacity.It never did.

By March 2014, it was clear the company was in trouble. Profit had shrunk to a mere Rs. 62 crore, while the company was spending more than Rs 1,600 crore a year in interest payments alone, according to Bhushan's 2014 annual report. When Bhushan Steel was on the brink of default in March 2014, SBI and a consortium of lenders sanctioned fresh loans. But as steel prices remained stubbornly low, and Bhushan's interest costs escalated, the company's total debt rose 30% in two quick years: from Rs.35,710 crore in 2014 to Rs.46,062 crore in March 2016.

Company's Product profile

The company has a portfolio of flat products.The company is producing cold rolled close annealed coils (CRCA), galvanized sheets, precision tubes, high tensile steel, hardened and tempered steel strip (H&T strips), wire-rods, color-coated sheets and galume.They also produce, sponge iron, pig iron, billets and slabs.

CIRP process of erstwhile Bhushan Steel Ltd

- CIRP process was initiated on July 26, 2017, under the provisions of the Insolvency and Bankruptcy Code. Pursuant to the initiation of the CIRP, TSL submitted its resolution plan for the resolution of Bhushan Steel and was selected as the highest compliant resolution applicant by the committee of creditors constituted under the IBC. On 15th May 2018, NCLT approved TSL's resolution plan.
- **Tata Steel** has acquired **Bhushan Steel** (BSL) through its wholly-owned subsidiary Bamnipal Steel Ltd (BNL) whereinTata Steel has taken a controlling stake of 72.65% in BSL and paid the admitted corporate insolvency costs and employee dues, as required under IBC.
- **Tata Steel Ltd (TSL)** is part of Tata Group and a public limited company engaged in the business of manufacturing steel and offers a broad range of steel products including a portfolio of high value-added downstream products such as hot rolled, cold rolled and coated steel, rebars, wire rods, tubes and wires. The equity shares are listed on BSE and on NSE.
- **Bamnipal Steel Limited (BNL)** is a public limited company incorporated on January 19, 2018 formed as an SPV (Special Purpose Vehicle), wholly owned subsidiary of TSL, in order to facilitate the acquisition of **Tata Steel BSL Limited (TBSL)** by way of the corporate insolvency resolution process prescribed under the Insolvency and Bankruptcy Code, 2016.
- **Tata Steel BSL Limited (TBSL)** formerly known as Bhushan Steel Limited is India's third largest secondary steel producing company with an existing steel capacity of 5.6 million tonne per annum is engaged in the business of manufacturing steel and offers products such as hot rolled, cold rolled and coated steel, cold rolled full hard, galvanized coils and sheets, high tensile steel strips, colour coated tiles, precision tubes, large diameter pipes, etc. TBSL is subsidiary of BNL and equity shares of the company are listed on BSE and on NSE.
- TSL has an operating revenue of ₹73,016 crore which is 3.5 times more than the TBSL and further PAT stood at ₹10,533 crore which is almost 10 times that of TBSL. Interest cost is very less in TSL as compare to TBSL which cleaned its balance sheet through IBC route.

- In fact, this is the leveraged buyout and financed largely through tax breaks and raising debt on the target company assets and minimal (around ₹300 crore) through equity contribution and internal accruals. This merger is consolidation of same line business and value addition to stakeholders from this merger is to be seen in near future.
- This acquisition added capacity of 5.6 MTPA to the current TSL steel production capacity which will enable the company to reach its target of 33 MTPA by 2025. Consolidation will also give TSL access to high-quality assets of TBSL such as widest cold rolling mill in India and complementary product portfolio with value-added products and presence in western India. Merger will help in better management and effective utilisation of resources, reorganising TBSL sales and marketing with distribution channel of TSL.
- Pursuant to the Resolution Plan, BNL subscribed to 72.65% of the equity share capital of TBSL for an aggregate amount of Rs.158.89 crore and provided additional funds aggregating to Rs.35,073.69 crore to TBSL by way of debt/convertible debt. The remaining 27.35% of TBSL's share capital will be held by TBSL's existing shareholders and the financial creditors who received shares in exchange for the debt owed to them.
- The acquisition is financed by combination of external bridge loan of Rs.16,500 crore availed by BNL and balance through investment by Tata Steel in BNL. The bridge loan availed by BNL is expected to be replaced by debt raised at BSL over time.
- The funds received by TBSL as debt and equity have been used to settle the sustainable debts owed to the existing financial creditors of TBSL, CIRP costs and employee dues, by payment of Rs.35,232.58 crore.
- The remaining unsustainable debts of Rs.25,285.46 crore were novated by the financial creditors to BNPL for a consideration of Rs.100 crore. BNPL, in its capacity as the promoters of TBSL, has waived off the unsustainable debts less cost of novation and the same has been recognised as equity contribution during the year ended March 31, 2019.
- 10% Redeemable Cumulative Preference shares of Rs.100 each amounting to Rs. 2,425.57 crore were redeemed for a total sum of Rs.4,700.Gain arising out of redemption was recorded as exceptional item in the financial results for the year ended March 31, 2019.
- Operational creditors are to be paid Rs. 1,200 crores will be paid over a period of 12 months.

Performance analysis

Performance indicators	Before CIRP As on 31.03.2017	During CIRP As on 31.03.2018	After CIRP As on 31.03.2019
Turnover (Rs. Crore)	15,027.30	17,404.43	20,891.60
Sales and Production Volume (in MT)	3.42	3.84	4.16
Net Profit Ratio (%)	-23.30%	-142.57%	8.20%
PBDIT (Rs. Crore)	2993.98	2299.93	3931.00
EBIDTA Margin %	19.88	12.67	18.18
Interest Coverage ratio (Times)	0.55	0.08	0.66
	5426.76	5304.9	3752.18

Interest and Financial charges (Rs. Crore)			
EPS (Rs.)	-154.56	-195.45	17.45
Inventory Turnover Ratio	0.13	5.63	5.93
Current Ratio	0.21	0.11	1.91
Debt to Equity Ratio	24.59	0.03	0.93
Net Debtors (Rs. Crore)	1525	1220	697
Debtors Turnover ratio (Days)	31.10	28.78	16.74
Net Cash Flow from Operating activities (in Crore)	752	1789	5800

Source: Annual Reports for FY16-17, FY17-18 , FY18-19

Pre and During CIRP

- The performance of the company improved significantly in 2017-18 (during the period of CIRP) as compared to pre CIRP. Turnover increased by 15.82%. Sales and production volume (in MT) increased by 12%. Net debtors were reduced by 20% and net cash flow from operating activities increased by137% as a result of better management control and operational efficiency which arrested the progressive decline in key performance indicators witnessed in the period prior to CIRP

During and Post CIRP

- The results of financial year 2018-19 are a testimony to the overall improvement the company has been able to achieve in a short period of time.There was an increase in revenue by 20.04% in 2018-19 (during / post CIRP)over last year due to production ramp up. This was largely compensated by an increase in raw material prices due to increase in cost of Coking Coal, Hot Rolled Coil (HRC) and other Alloys.
- During the financial year 2018-19, the saleable steel production of Tata Steel BSL stood at 4.16 million tons that is more than 10 per cent over FY18 (3.8 MTPA). This has been possible because of higher mill availability with improvement in maintenance practices and uninterrupted raw material supply
- Current Ratio Improved in 2018-19 primarily on account of reduction in the current liabilities due to reduction in current portion of long term borrowings and short term borrowings (due to repayments).
- EBITDA Margin Improved in 2018-19 primarily on account of higher operating profits.
- Debtor Turnover Ratio improved in 2018-19 primarily on account of introduction of channel financing facilities across the distributor segment and discounting arrangements across the other segments.
- Interest Coverage Ratio Improved in 2018-19 primarily on account of higher operating profits and reduction of finance cost on account of reduction in external borrowings.
- Total amount of loans (including interest) which were outstanding during FY18 were approximately Rs.58,000 crore with an interest rate varying from 9% to 20% including penal interest.The existing debts of the Company were settled by paying Rs. 35,200

crore. Therefore, the loan amount has decreased significantly in 2018-19 YoY resulting in decline in finance cost from Rs 6,305 crore in 2017-18 to Rs 3,752 crore.

FY 2019-20

- The company announced its Q3 FY20 and 9M FY20 key production and sales figures (provisional) on 9th January, 2020. The company achieved crude steel production of 1.154 MT in Q3 FY20 compared to 1.067 MT in Q2 FY 2020 and 1.039 MT in Q3 FY19. For 9M FY20, the crude steel production stood at 3.343 MT compared to 3.132 MT in corresponding period of previous year.The company's sales stood at 1.254 MT in Q3 FY20 compared to 1.041 MT in Q2 FY 2020 and 0.0917 MT in Q3 FY19. For 9M FY20, the sales stood at 3.159 MT compared to 2.911 MT in corresponding period of previous year. Net sales in the financial year 2019-20 are : Q1 – Rs. 4124.45 crore, Q2 – Rs. 4311.67 crore and Q3 – Rs. 5038.11 crore

Future outlook

With focus on overall improvement, taking the workforce of erstwhile Bhushan Steel along, the emphasis of the new management has been on safety, environment and social responsibility, in addition to operational and financial excellence. As part of the synergy drive between Tata Steel and Tata Steel BSL, It has launched many products such as Tata Steelium,Tata Shaktee and Tata Kosh, expanding our customer base and driving new process and product development.Tata BSL Limited is expected to maintain its buoyancy and progressively improve its performance and operational efficiency on account of the following expected business scenarios which are likely to favourably impact the business of the company.

- The construction sector is witnessing a consistent revival, mainly supported by government spending on infrastructure. The construction sector is likely to maintain its current momentum with gradual rise in investment.
- The Capital Goods sector is showing signs of rising manufacturing capacity utilization. The Renewable energy segment is also witnessing strong demand with several new projects being launched due to strong government focus.
- Consumer durables demand emanating from Refrigerators, Washing machines, Air Conditioners and Ceiling Fans is likely to normalize to around 7% in coming years
- On-going freight corridor and metro rail projects will continue to support the demand in railway sector, along with the electrification of 16,540 track kms. by 2022