Equity and Debt Restructuring

Topics

- Concept of Equity Restructuring
- Buyback of shares
- Concept of Debt Restructuring
- Corporate Debt Restructuring Scheme

Concept of Equity Restructuring

- An equity restructuring is a transaction between a corporation and its shareholders that alters the fair value of the shares associated with an option or similar reward.
- Examples of the equity instruments that may be altered in a restructuring are a rights offering, stock split, or stock dividend.
- Such a restructuring may be needed when shareholders feel that the terms of a stock issuance agreement are no longer fair to them, usually because the market price of the associated shares has declined so much that it is no longer realistic for them to exercise an option.
- In this restructuring, equity capital is reorganized by reshuffling shareholders' capitals and reserves in the balance sheet.
- It is a complex process, as it involves law.

Reasons of Equity Restructuring

- Overcapitalization correction.
- To support management stakes.
- Provide an exit mechanism.
- To increase efficiency.
- To erase accumulated losses.
- Maintain debt-equity ratio.
- Unrecognized expenditure writes off.
- To raise new finance.
- Revaluation of assets.

Capital Restructuring proposal for CPSEs

S.No	Mode	Condition/Criteria
1	Cash Dividend	Minimum annual dividend of 30% of PAT (Profit after tax) or 5% of Net Worth, whichever is higher
2	Bonus Shares (Stock Dividend)	Compulsory issue of bonus shares if reserves and surplus is equal to or more than 10 times of paid up capital
3	Share Buyback	Option to buyback should be exercised if Net Worth is at least Rs. 2000 crore and Cash and Bank balance at least Rs. 1000 crore.
4	Stock Splits	Compulsory split if market price or book value of a share exceeds 50 times of its face value.

Dividend Policy

- Regulators believe that shareholders demand transparency on dividend and have every right to know the expected use of cash, if the same is not distributed as dividend.
- SEBI has recently made it mandatory for top 500 listed companies to declare a dividend distribution policy to their shareholders. SEBI has also mentioned that if a company decides not to pay out dividend in a particular year, it must explain the reason and how the retained earnings will be used.
- A stated dividend policy will remove speculation and help analysts estimate fair value of shares.
- The Financial Reporting Council of UK has brought out a report suggesting how companies can make dividend disclosures more relevant for investors.
- The top ten CPSEs have distributed Rs. 2.5 trillion as dividend over the past ten years (up to 31 March 2015) and spent only Rs. 1.3 trillion for organic growth (net capital expenditure).
- The dividend paid is more than 5% of net worth of the CPSEs. Though the gross capital expenditure of the top ten CPSEs was Rs. 3.4 trillion, much of it was funded by depreciation.
- Dividend paid by these CPSEs over the past ten years is almost equal to the GDP of Odisha as on March 2015.

Dividend Policy contd..

- Therefore, even in the absence of such strong guidelines, the profitable CPSEs were paying handsome dividend to the shareholders, the principal beneficiary being Government of India.
- The top ten NIFTY companies (excluding CPSEs) paid Rs. 1.8 trillion as dividend during the same period- almost 30% lower than the CPSEs.
- Government of India, as principal shareholder of the CPSEs, has directed all profitable CPSEs to follow the minimum dividend guideline.
- Is it right for the major shareholder to compel‘ companies to pay any pre-announced dividend? Any prudent dividend policy would lay down circumstances when dividend will or will not be paid.
- The quantum should only be decided after evaluating the following factors:
  - future expansion need;
  - profit earned; and
  - free cash flow.
- However, in view of huge cash pile up and lack of clear expansion plans, the CPSEs would definitely face the heat of the shareholders for distribution of free cash.
- The situation equally applies to companies in the private sector

Bonus Shares

- The guideline directs that a CPSE should issue bonus shares if the retained earnings are more than 10 times paid up capital.
- The guideline further states that whenever the multiple (retained earnings/ paid up capital) exceeds 5, the concerned CPSE should evaluate the possibility of offering bonus shares. It is generally understood that bonus shares reward shareholders.
- Typically, whenever retained earnings of a company become disproportionately higher and the concerned firm is unable to reward its shareholder by way of cash dividend, bonus shares prove useful.
- However, it is also to be noted that issue bonus shares act as poison pill and create permanent pressure on the treasury of a firm for future dividends. In that sense, bonus debenture could be a better choice.
- Seven out of top ten CPSEs are required to issue bonus shares if one follows the diktat of the DIPAM guidelines. Most of these are from energy sector. It may be noted that five of these CPSEs had already issued bonus shares in the last ten years.
- If Government of India has plans to disinvest further its stake in these CPSEs, it is always prudent to have lower equity base. The blanket guideline on issue of bonus shares would bloat the paid up capital of many entities thereby making them unattractive to potential investors

Buyback of Shares

- Theory of corporate finance tells us that one of the motivations of share buyback is to distribute free cash to the shareholders so that the latter can use the funds profitably.
- There are examples of shareholders‘ pressure for buyback whenever any company holds too much of cash. But the real question is how much cash is too much?
- The DIPAM guidelines provide that any CPSE with a cash balance of more than Rs. 1000 crore should seriously consider share buyback to distribute free cash.
- The main motivation behind the guideline seems to be reducing the budget deficit of the central government rather than enhancing shareholder wealth. The guideline may also contradict its own recommendations.
- For example, ONGC is required to issue bonus shares, pay hefty dividend and also buyback shares- all in the same year! Whereas the financial statements of ONGC show that the company has already severely depleted its cash reserve from a high of 18% of total assets to only 1.2% in March 2015.
- It is always prudent to consider relative rather than absolute liquidity while taking a share buyback decision.
- One might of course argue that ONGC has spent only 7% of operating cash of past ten years in capital projects and hence clearly the company does not have any immediate need of hoarding cash. It has already paid 28% of its operating cash as dividend over the past ten years.

Stock Split

- There are two theories behind corporate motivation for stock split- first, split enhances liquidity of stocks and diversifies the shareholders; and second, it sends a signal of superior performance of the firm.
- Empirical evidence, however, supports the hypothesis of the liquidity theory.
- The DIPAM guidelines mention that whenever market price or book value of share of a CPSE exceeds 50 times its face value, the CPSE will split its shares appropriately.
- Figures for the financial year 2014-15 suggest that three out of top ten CPSEs (ONGC, NMDC and BHEL) is required to split their shares on book value basis.
- However, if one looks at the market value-to-face-value multiple, there are four companies (BPCL, NMDC, HPCL and BHEL) having such multiple more than 50 and hence are required to split stocks.
- If one CPSE has a face value of Rs. 10 per share, the guidelines suggest that the CPSE with a book or market value of share more than Rs. 500 should consider stock split.

Equity Restructuring - Conclusion

- Equity restructuring is a continuous process and is used by the management as a technique to enhance the net worth of a company. Equity restructuring strategies increase the price-to-book multiple of firms.
- Share buyback is not that popular in India as the shares so bought back are to be cancelled.
- Cash dividend, on the other hand, is a more popular form of distribution of cash to shareholders. But dividend is stickier than share buyback.
- Hence, if a firm has to distribute a large amount of cash to shareholders, it is always prudent to opt for the buyback route.
- Any restructuring action generally conveys positive signal to the market. But if the actions are pre-defined and follow some cardinal principles, there would be no surprises and market would factor in such actions in the prices much before the actual events.
- Splitting stock when the market price exceeds INR 500 (with a face value INR 10) is too low a level for such action.
- For example, 43 out of 50 NIFTY companies have share prices more than 50 times of their respective face values. If these companies start splitting stocks (some of them have already done that), the market will witness a surge in supply which may not always increase the return of the stocks.

Buyback of Shares

- Buy-back of shares is a method of financial engineering. It can be described as a procedure which enables a company to go back to the holders of its shares and offer to purchase the shares held by them.
- Buy-back helps a company by giving a better use for its funds than reinvesting these funds in the same business at below average rates or going in for unnecessary diversification or buying growth through costly acquisitions.
- When a company has substantial cash resources, it may like to buy its own shares from the market particularly when the prevailing rate of its shares in the market is much lower than the book value or what the company perceives to be its true value.
- This mode of purchase is also called Shares Repurchase‘. A company can utilize its reserves to buy-back equity shares for the purpose of extinguishing these or treasure operations.
- The former option results in re-duction of the paid up capital, and consequently higher earnings and book value per share. Naturally, the market price of equity goes up.

Buyback of Shares Contd..

- The reduction in share capital strengthens the promoter‘s control and enhances the equity value for shareholders. In the latter option, companies buy their shares from open market and keep these as treasury stock‘.
- This enables the promoters to strengthen their control over the shares bought back, without any investment of their own. In case of treasure operations, there is a diversion of company‘s funds to buy shares and reduction in the value of equity for the shareholders.
- The main aim of shares repurchase might be reduce the number of shares in circulation in order to improve the share price, or simply to return to the shareholders resources no longer needed by the company.
- The shares repurchase may be by way of purchase from the open market or by general tender offer to all shareholders made by the company to repurchase a fixed amount of its securities at pre-stated price.

Reasons for Buy-back

There are reasons why a company would opt for buy-back:

- To improve shareholder value, since buy-back provides a means for utilizing the companies surplus funds which have unattractive alternative investment options, and since a reduction in the capital base arising from buy-back would generally results in higher earnings per share (EPS).
- It is used as a defense mechanism, in an environment where the threat of corporate takeovers has become real. Buy-back provides a safeguard against hostile take-over by increasing promoter‘s holdings.
- It would enable corporate to shrink their equity base thereby injecting much needed flexibility.
- It improves the intrinsic value of the shares by virtue of the reduced level of floating stock.
- It would enable corporate to make use of the buy-back shares for subsequent use in the process of mergers and acquisitions without enlarging their capital base.
- Buy-back of shares is used as a method of financial engineering.
- It is used for signaling the effects of buy-back on the share price.

Financing Aspects of Buy-back

- Finance is the nerve centre for the business activities and success is more depending on the better and efficient management of funds and finance.
- In order to buy-back of shares and securities in large numbers, the company needs huge amounts of capital and funds which may be mobilized through one or more of the sources viz.

    1. Internal sources
    2. Sufficient cash position
    3. Selling of temporary investment with the least possible loss
    4. Raising of working capital needs
    5. Raising cash by issuing fixed deposits
    6. Raising by issue of debentures and loan bonds
    7. Cash credit from commercial banks
    8. Overdraft from commercial banks etc.

Benefits of Buy-back

The benefits derived from share repurchase program are as follows:

1. Firms whose profitability was below their industry average enjoy greater share price growth after shares are repurchased than firms whose profitability was above their industry average.
2. Firms whose sales growth was below their industry average enjoy greater share price growth after shares are repurchased than firms whose sales growth was above their industry average.
3. Profitable and growth firms that repurchase shares provide a clear indication to the investors about the strengths of the company.
4. Repurchasing firms with debt ratios below but sales growth rates above their industry average experience substantially higher share price growth after repurchasing than firms with debt ratios above but sales growth below their industry average.
5. Repurchasing firms with profitability and debt ratios below their industry average demonstrate higher share price growth after repurchasing than firms with profitability and debt ratios above their industry average

Drawbacks of Buy-back

The shares repurchase is criticized for the following reasons:

1. This could enable unscrupulous promoters to use company‘s money to raise their personal stakes.

2. It opens up possibilities for share price manipulation.

3. It could divert away the company‘s funds from productive investments.

Legal Provisions of Buy-back

- Buy-back enables the company to go back to its shareholders and offers to purchase from them the share they held. With the introduction of sections 77A, 77A A and 77B in the Companies Act, 1956 through the Companies (Amendment) Act, 1999, now the companies allowed buy-back shares.
- They buy-back of shares are also subject to the SEBI (Buy-back of Securities) Regulations, 1998. The said legal provisions are summarized as follows:

1. The Sources of funds for buy-back of shares or other specified securities of a company are:

(a) Free reserves or

(b) Securities premium account or

(c) The proceeds of issue of any shares or other specified securities.

2. No buy-back should be made out of the proceeds of an earlier issue of same kind of shares or same kind of other specified securities.

3. Explanation to section 372A of the Act provides that reserves‘ as per the last audited Balance sheet of the company are to be taken as free reserves. The amounts credited after the close of financial year to free reserves and the securities premium account should not be utilized for buy-back.

Legal Provisions of Buy-back Contd..

4. The company may buy-back its own shares or other specified securities in any of the following manner:

   (1) From the existing security holders on a proportionate basis, or

   (2) From the open market, or

   (3) From odd lots, or

   (4) By purchasing the securities issued to employees of the company pursuant to a scheme of stock option or sweat equity.

5. A company may buy-back its shares or other specified securities to the extend 10% of its total paid-up equity capital and free reserves by passing only a Board resolution.

6. If buy-back is beyond 10%, it must be approved by shareholders resolution. In any case, buy-back of equity shares by a company cannot exceed 25% of its total paid-up equity capital in that financial year.

7. Where the companies buy-back its own shares, it shall extinguish and physically destroy the securities so bought back within seven days of the last date of completion of buy-back.

8. A company can issue bonus shares at any time after the buy-back of shares. Regulation 19(l)(a) of the SEBI (Buy-back of Securities) Regulations, 1998, a company shall not issue any specified securities including by way of bonus till the date of closure of the offers for buy-back made under the regulations.

Legal Provisions of Buy-back Contd..

8. Section 77(8) prohibits further issue of shares (including allotment of further shares) under clause (a) of sub-section (1) of section 81 for a period of six months except by way of bonus shares.

9. A company can buy-back its shares every year but subject to the satisfaction of other conditions such as debt-equity ratio, limits of buy-back stipulated in section 77A etc. Promoters can participate under tender offer or buy-back through book building subject to full disclosures being made in the letter of offer.

10. A company cannot buy-back equity shares from the promoter or person in control of the company if the buy-back is through stock exchange.

11. Passing of resolution by a company does not create any obligation on the company to buy-back its securities. Buy-back becomes irrevocable only when the letter of offer is filed with the appropriate authority or public announcement of the offer to buy-back is made.

12. The company should pay the consideration only by way of cash/ cheque /bank draft.

13. The cost of buy-back of securities should be taken as an expense and charged to the P & L Account.

14. Listed companies are required to intimate the stoke exchange of general meeting and resolution passed thereof.

Legal Provisions of Buy-back Contd..

15. The buy-back shares of a private limited company are subject to the compliance of Private Limited Company (Buy-back of Securities) Rules, 1999.

A listed company is required to open an escrow account which is to be used as a security for the purpose of making payment in respect of buy-back of shares. The company should deposit in an escrow account opened with a scheduled commercial bank on or before the opening of the offer for buy-back of securities.

16. Where the estimated consideration payable for buy-back does not exceed Rs. 100 cores, 25% of the consideration payable.

17. In case the consideration payable for buy-back exceed Rs. 100 crores, 25% up to Rs. 100 crores and 10% of the balance.

18. The companies are required to maintain a Register of Securities Bought back‘ which should contain the prescribed information. .

Legal Provisions of Buy-back Contd..

19. The company is required to extinguish and physically destroy the security certificates bought back in the presence of the Registers or Merchant Banker or Statutory Auditor within seven days from the date of acceptance of securities. Mere stamping cancelled is not sufficient.

20. The securities offered for buy back, if already dematerialized, should be extinguished and destroyed in the manner specified under SEBI (Depositories and Participants) Regulations, 1996 and the bye-laws framed thereunder.

21. Where a company purchases its own shares out of free reserves, then a sum equal to the nominal value of the shares so purchased shall be transferred to the Capital Redemption Reserve' and details of such transfer shall be disclosed in the Balance sheet.

22. Disclosure are required to be made in Directors Report as to reasons for failure of buy- back, if shares are not bought back within 12 months from date of Board or Shareholders resolution.

23. A company should not keep the offer for buy-back open for a period exceeding 30 days.

Concept of Debt Restructuring

- Debt restructuring is a process used by companies to avoid the risk of default on existing debt or to take advantage of lower available interest rates.
- Debt restructuring can be carried out by individuals on the brink of insolvency as well, and by countries that are heading for default on sovereign debt.
- The debt restructuring process can be carried out by reducing the interest rates on loans or by extending the dates when a company‘s liabilities are due.
- A debt restructure might include a debt-for-equity swap, when creditors agree to cancel a portion or all of the outstanding debt in exchange for equity in the company.
- A nation seeking to restructure its debt might move its debt from the private sector to public sector institutions.

How Debt Restructuring Works?

- Some companies seek to restructure debts when they're facing bankruptcy. They might have several loans are structured in such a way that some are subordinate in priority to other loans.
- The senior debtholders would be paid before the lenders of subordinated debts if the company were to go into bankruptcy. Creditors are sometimes willing to alter these and other terms to avoid dealing with a potential bankruptcy or default.
- The debt restructuring process is typically carried out by reducing the interest rates on loans, by extending the dates when the company‘s liabilities are due to be paid, or both.
- These steps improve the firm‘s chances of paying back the obligations. Creditors understand that they would receive even less should the company be forced into bankruptcy and/or liquidation.
- Restructuring debt can be a win-win for both entities. The business avoids bankruptcy and the lenders typically receive more than what they would through a bankruptcy proceeding.
- Individuals can restructure their debts in various ways as well, but be sure to check the credentials and reputation of any debt relief service you're considering with your state’s attorney general or consumer protection agency because not all are reputable

Types of Debt Restructuring

- A debt restructure might also include a debt-for-equity swap. This occurs when creditors agree to cancel a portion or all of their outstanding debts in exchange for equity in the company.
- The swap is usually a preferred option when the debt and assets in the company are very significant, so forcing it into bankruptcy would not be ideal.
- The creditors would rather take control of the distressed company as a going concern.
- A company seeking to restructure its debt might also renegotiate with its bondholders to
- "take a haircut"—where a portion of the outstanding interest payments would be written off, or a portion of the principal will not be repaid.
- A company will often issue callable bonds to protect itself from a situation in which interest payments cannot be made. A bond with a callable feature can be redeemed early by the issuer in times of decreasing interest rates.
- This allows the issuer to readily restructure debt in the future because the existing debt can be replaced with new debt at a lower interest rate.

Other Examples of Debt Restructuring

- Individuals facing insolvency can renegotiate terms with creditors and tax authorities.
- For example, an individual who is unable to keep making payments on a $250,000 subprime mortgage might agree with the lending institution to reduce the mortgage to 75%, or $187,500 (75% x $250,000 = $187,500). In return, the lender might receive 40% of the proceeds of the house sale when it's sold by the mortgagor.
- Countries can face default on their sovereign debt, and this has been the case throughout history. In modern times, they sometimes opt to restructure their debt with bondholders.
- This can mean moving the debt from the private sector to public sector institutions that might be better able to handle the impact of a country default.
- Sovereign bondholders might also have to "take a haircut" by agreeing to accept a reduced percentage of the debt, perhaps 25% of the full value of the bond. The maturity dates on bonds can also be extended, giving the government issuer more time to secure the funds needed to repay its bondholders.
- Unfortunately, this type of debt restructuring doesn't have much in the way international oversight, even when restructuring efforts cross borders.
- Debt restructuring provides a less expensive alternative to bankruptcy when a company, individual, or country is in financial turmoil. It's a process through which an entity can receive debt forgiveness and debt rescheduling to avoid foreclosure or liquidation of assets.

Corporate Debt Restructuring and Insolvency

- The concept of restructuring comes into picture when a company is facing financial difficulties, and as a result of which, it is on the verge of insolvency.
- Restructuring a company is done when the business operations carried out by the company is viable, but still owing to some factors, it is incurring losses.
- These factors can be a change in government policy, change of interest rates, change in the value of currency, etc. these factors are obviously beyond the control of the company.
- In such cases CDR plays an important role in giving the company another chance to survive in the market.
- The basic objective of CDR is to maintain the viability of the company in the long run so that interested parties do not incur any losses.
- The interested parties enter into different arrangements with the company like exchanging their debt for some number of shares (referred to as debt-equity swap), or forgoing a part of the loan, or the interested parties agree to a fixed moratorium period where both the parties do not institute any action against each other during the said period.

Corporate Debt Restructuring and Insolvency Contd..

- CDR is a part of the external mechanism. In the case of CDR, the company has to ensure that it has at least some assets to support the reconstructing process because once a company enters into insolvency, it does not have much choice.
- Drawn out insolvency also compels the company to wind up its activities, and the company loses its —separate legal entity status. But if proper restructuring is done, the company may get a new lease of life and continue with its business operations.
- CDR can be done in a number of ways.
- Preference shares can be converted into equity shares; overall debts can be converted into shares, a part of debt can be waived by the creditors, Inter-Creditor Agreements can be modified, contingent claims can be revalued and settled, and assets and liabilities can be redistributed.
- CDR includes different stages, such as making an agreement between the parties, consideration of the proposals between the parties and providing additional funds to the company at a higher rate of interest by the lenders so that the company can carry on its business activities and do not become insolvent.

Corporate Debt Restructuring in Indian Scenario

- The concept of CDR was introduced to the India when in the year 2001, the RBI came up with certain guidelines to be followed by banks and other financial institutions.
- The RBI stated that the concept of CDR is a non-statutory and voluntary process where if 75% of the creditors (by value) decide to aid the company, the other 25% of the creditors will also have to agree to help the company through the process of CDR.
- CDR is available only to those companies which have multiple bank accounts and has taken credit from multiple lenders.
- Also, the outstanding amount of debt of all the creditors and lenders should be 100 million or above in aggregate. It covers all categories of assets categorized by the RBI in terms of prudential assets classification standards.
- Cases which are filed with the Debt Recovery Tribunal, The Bureau of Industrial and Financial Reconstruction or any other case are qualified for reconstruction under CDR.
- A bank or a financial institution can refer for CDR if it has a 20% share in working capital or term loan of the company.
- The major benefit a creditor has from restructuring debts is that they are able to reduce the non-performing assets of a company through it

Corporate Debt Restructuring Scheme

- Corporate Debt Restructuring or CDR is a voluntary process under which banks and financial companies aid those companies, who are facing financial difficulties due to internal or external factors, to restructure their debts. CDR is a non-statutory process.
- The motive behind this mechanism is to provide timely support to the companies and revive them.
- Another motive is to protect the interest of the stakeholder, investors, and other parties who are acting as lenders to such enterprises.
- CDR is available to those companies which have availed credit facility from more than one financial institution. These financial come together to help the company for the benefit of all the interest parties.
- Corporate Debt Restructuring, in short CDR is a scheme evolved by the Reserved Bank of India (RBI) through a circular issued on 23rd August, 2001 for implementation by banks and Financial Institutions (FIs) for realisation of amount of debt from the debtors who are not able to pay the amount in full.
- It is based on a voluntary agreement between the debtor & creditor (DCA) or the creditor & creditor (ICA) whereby approval of 75% creditors i.e. Super Majority is required.
- It covers the multiple banking accounts and consortium or syndication of accounts where aggregate outstanding is Rs. 100 million

Cases eligible under Corporate Debt Restructuring Scheme

- Now, kind of cases which are eligible for CDR are mentioned as below:-
- • Debt Recovery Tribunal (DRT) Cases
- • Board for Industrial & Financial Reconstruction (BIFR) Cases
- • Suits filled for recovery
- The further most important question is….who can Trigger CDR? and the answer is…it can be triggered by any creditor having minimum 20% share in Working Capital or term Finance or concerned corporate (if supported by bank/FIs having share as mentioned above).
- The interesting fact is any application made for concealment of any fraud or misfeasance will not be allowed under this scheme but may be admitted if it is satisfied that it would rectify the default.

Structure of Corporate Debt Restructuring Scheme

Structure of Corporate Debt Restructuring Scheme contd..

- Firstly, CDR Standing Forum is the top most tier of the CDR Structure, it contain representative general Body of all FIs/Banks i.e. Chief Executives All Indian Financial Institution and Scheduled Banks.
- It is the Monitor of CDR mechanism and it is a self-empowered body which lays down the policies and guidelines which is being followed by the CDR Empowered Group (EG).
- It also reviews the decisions of EG & CDR Cell. CDR Core group is also carved out from Standing Forum to perform assisting functions.
- Secondly, CDR Empowered Group is the second tier of the structure which decides the cases and contains Executive Directors of FIs/ Schedule.
- Importantly it considers the Preliminary flash report of all cases whose request is made by the CDR Cell and if it is found that CDR is potentially viable then frames the package by referring institution in conjunction with CDR Cell.
- Thirdly, CDR Cell is the last tier work in conjunction with Banks/FIs for framing report etc.Potential Viability of a case varies case to case depending upon the benchmark parameters derived through various sources e.g. Internal Rate of Return, Break Even Point, Cost of Capital, etc.

Steps under Corporate Debt Restructuring Scheme

- Lead/major Stakeholder work out preliminary restructuring plan with other stakeholder & submit to CDR Cell.
- CDR Cell makes initial scrutiny of proposals received within 30 days that prima facie CDR is feasible.
- If found feasible then referring banks to work out detailed plan with help of other lenders in conjunction with CDR Cell (experts engage from outside, if required) & if not feasible then lenders may start action for recovery of their dues.
- EG approve or suggest modification to restructuring plan. (final decision taken within 90 days……may extend to 180 days in genuine cases)
- The plan is monitored by MONITORING COMMITTEE (MC), It is constituted by EG at time of approval consist of representative of referring banks/FIs.
- Another important part here is that, Borrowers are classified in 4 classes as given below:
- 1. Category A: Companies unable to pay due to external factors e.g. economy, industry etc.
- 2. Category B: Companies unable to pay due to external factors and also due to weak resources, inadequate vision and lack of professional support.
- 3. Category C: Borrowers are overambitious and diversified into unrelated fields with or without lenders permission.
- 4. Category D: Financially undisciplined borrowers.
- It is a scheme made for those who are unable to pay the sum in full where some debt is forgiven by creditor in exchange of equity position in company.

Thank You