DEBT MANAGEMENT STRATEGIES BY CORPORATES

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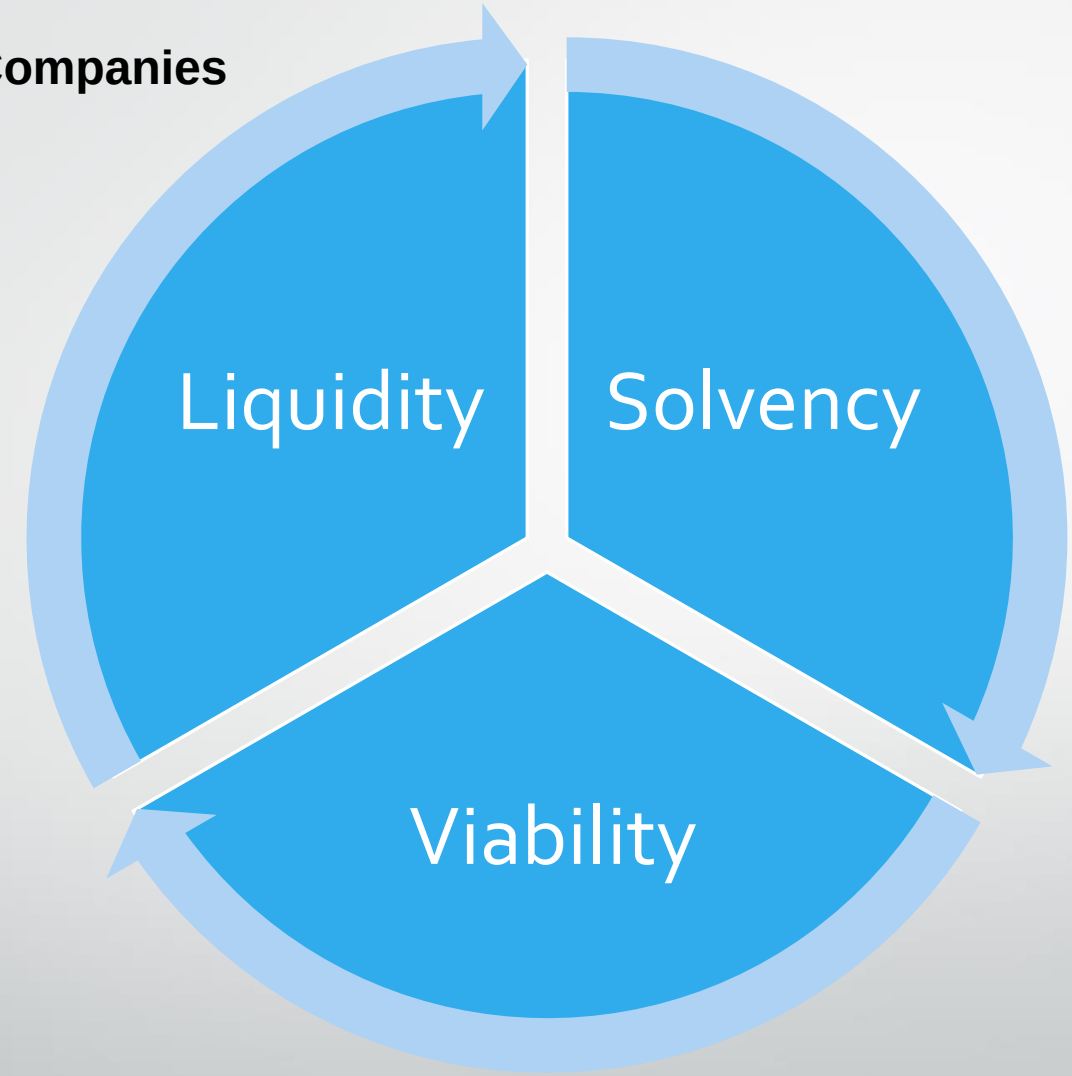
Objective of the Session

- Affect of Debt on Companies
- Deterioration of the credit rating of the company
- Case Study of DLF- understand how DLF revived
- Understand different Government Agencies and their roles
- Revival Strategies

Importance of Debt Management

- Helps the Companies/Borrowers to manage huge debts
- It helps in Debt negotiation, debt consolidation & debt elimination
- Helps in enhancing Companies' Financial Stability
- Helps the Companies to remove pressure from Creditors

Oxygen for Companies



Why Do Companies Run into Huge Debt

- Unaware of Market Dynamics
- Too much diversification
- Asset Liability Mismatch
- Unable to forecast cash flow in realistic terms
- Problem in working capital management
- Unable to execute project due to clearance issue
- Poor Management
- Unnecessary expense
- Taking short term debt to manage long term debt repayment

DLF- Delhi Land & Finance Ltd

DLF Limited (**Delhi Land & Finance**) is Gurgaon based commercial real estate developer. It was founded by Chaudhary Raghvendra Singh in 1946 and is based in New Delhi, India. DLF developed residential colonies in Delhi such as Shivaji Maharaj Park (their first development), Model Town, Rajouri Garden, Krishna Nagar, South Extension, Greater Kailash, Kailash Colony, and Hauz Khas. DLF builds residential, office, and retail properties.

This is a listed company & listed with NSE.

The company went into huge debt in 2015-16, but it recovered. Here are the strategies the company adopted

Key points from DLF Revival Case Study

- DLF Ltd's real estate edifice, which was crumbling under a Rs27,000 crore debt burden (as of September 2017), finally got some respite as promoters infused funds into the firm to repay debt.
- Debt was trimmed by a repayment of Rs7,100 crore with promoter funds
- DLF raised ₹ 3,173 crore by selling shares to institutional investors through its QIP offer.
- Major institutional investors who participated in QIP offer include Oppenheimer, UBS, HSBC, Marshall & Wace, Myriad, Key Square, Goldman Sachs, Indus, Eastbridge, Tata Mutual Fund and HDFC Mutual Fund

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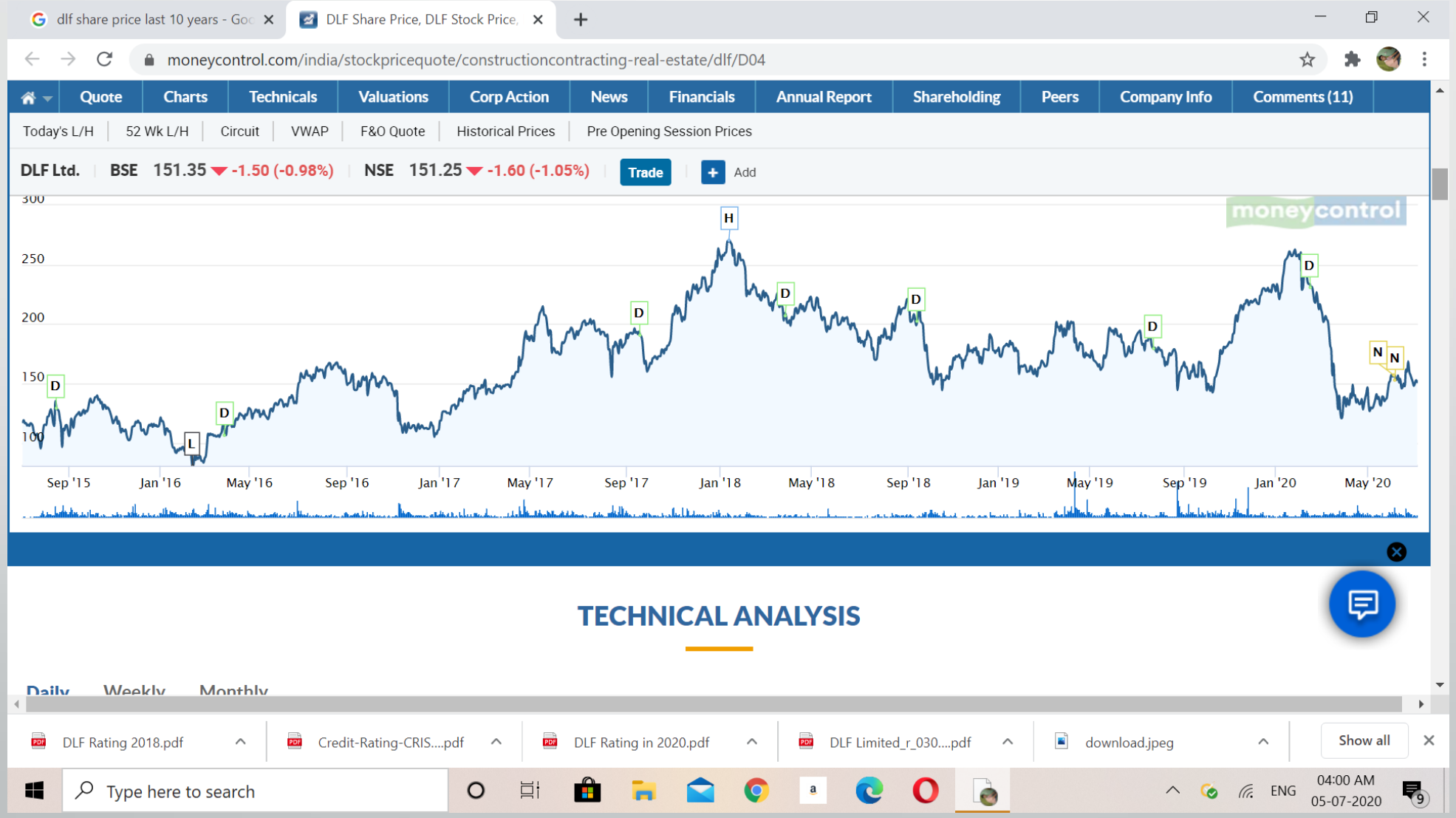
Movement of share price of DLF since 2015



Steps that can be taken for Recovery

- Send a legal notice through a lawyer, stating the debt and fact of non-payment and the actions that you will be taking if the payment is not made
- Arbitration
- Money Suit
- Insolvency & Bankruptcy proceedings
- Complaint with Statutory Bodies like MCA, SEBI etc
- FIR with Police
- Other tactics

Debt Recovery Tribunal (DRT)…key points…

- Debt Recovery Tribunals were established to facilitate the debt recovery involving banks and other financial institutions with their customers
- DRTs were set up after the passing of Recovery of Debts due to Banks and Financial Institutions Act (RDBBFI), 1993.
- DRTs can take cases from banks for disputed loans above Rs 10 Lakhs
- At present, there are 33 DRTs and 5 DRATs functioning at various parts of the country.
- In 2014, the government has created six new DRTs to speed up loan related dispute settlement.

NB: DRAT- Debt Recovery Appellate Tribunal…the appeal made against the orders passed by DRT, lies with DRAT

Some issues with DRT…

- The number of DRTs are small given the increasing number of cases.
- Delay in settling the cases is long.
- The DRTs were not able to handle cases related to large borrowers.
- Timely appointment of officials for DRT has not been made.

National Company Law Tribunal (NCLT)…

The **National Company Law Tribunal** is a quasi-judicial body in India that adjudicates issues relating to Indian companies. The tribunal was established under the Companies Act 2013 and was constituted on 1 June 2016 by the government of India and is based on the recommendation of the V. Balakrishna Eradi committee on law relating to the insolvency and the winding up of companies

Powers of National Company Law Tribunal (NCLT)…

- Can adjudicate proceedings Initiated before the Company Law Board under the Companies Act 1956
- Can adjudicate proceedings pending before the Board for Industrial & Financial Reconstruction, including those pending under the Sick Industrial Companies (Special Provisions) Act, 1985
- Can take up cases pending before the Appellate Authority for Industrial and Financial Reconstruction
- Can take up cases pertaining to claims of oppression and mismanagement of a company, winding up of companies and all other powers prescribed under the Companies Act

National Company Law Appellate Tribunal (NCLAT)…

- The National Company Law Appellate Tribunal (NCLAT) is a tribunal which was formed by the Central Government of India under Section 410 of the Companies Act, 2013. The tribunal is responsible for hearing appeals from the orders of National Company Law Tribunal(s) (NCLT), starting on 1 June 2016.

- The tribunal also hears appeals from orders issued by the Insolvency and Bankruptcy Board of India under Section 202 and Section 211 of IBC

- It also hears appeals from any direction issued, decision made, or order passed by the Competition Commission of India (CCI).

Few points about Board of Industrial & Financial Reconstruction (BIFR)…

- The Board for Industrial and Financial Reconstruction (BIFR) was an agency of the Government of India, part of the Department of Financial Services of the Ministry of Finance.
- Set up in January 1987 by the Rajiv Gandhi government, its objective was to determine sickness of industrial companies and to assist in reviving those that may be viable and shutting down the others
- On 1 December 2016, the Modi government dissolved BIFR and referred all proceedings to the National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT) as per provisions of Insolvency and Bankruptcy Code

Strategies for Debt Reduction & Enhanced Credit Rating

- Infuse Capital
- Increase Cash Inflow
- Debt Restructuring
- Debt/Equity Swap
- Sell Idle assets
- Cost Cutting
- Encourage culture of multitasking
- Encourage Cash Sweep- especially in hey days of company