MUMBAI | MONDAY, 4 NOVEMBER 2019 Business Standard

How Tata Steel put its soul into Bhushan Steel

The Insolvency and Bankruptcy Code, a reform undertaken by the Narendra Modi government, came as a beacon of hope for banks and investors three years ago. While the law still evolves and litigations pile up, many companies have got a fresh lease of life through IBC. The first of a four-part series takes a look at how erstwhile Bhushan Steel is faring as Tata Steel BSL under a new command. **Jayajit Dash** reports

When Tata Steel was done with the takeover of the ailing Bhushan Steel (BSL) in Odisha, ramping up Key Performance Indicators (KPIs) was the least of its concerns. BSL was debt-laden and stressed. But, as an asset, it was of immense value, given its facilities, competent workforce, and the range of customers. Tata Steel decided to focus on the nuts and bolts before worrying about KPIs.

The first step was to start planning what had to be done with the re-christened — Tata Steel BSL — asset. Rajiv Singhal, managing director at Tata Steel BSL recalls how the first 10 days post-acquisition were marked by endless meetings to get to know everyone. "Our effort was to communicate, sit with the people and understand the challenges they are facing. We had constant and ample communication. Slowly, we started introducing the methodologies with which we had to run this business", said Singhal.

IBC
A NEW LEASE

You would think that, with a century of operations and the brand label, Tata Steel could easily have swayed customers and vendors of all stripes. But, Tata Steel BSL had a lot of baggage — the bizarre management structure of the previous promoters, lack of uniformity in policies and recurring accidents had punched a hole in the confidence of stakeholders.

"No suppliers were ready to supply on credit, which otherwise they would have. Customers were not keen to take long-term positions. For instance, once automotive customers approve a supplier, they continue with it. They don't want to switch on or off because they do a lot of quality checks. Obviously, there was a fair amount of apprehension in the minds of suppliers as well as customers and that was a challenge," Singhal said.

For Tata Steel, communicating its credo formed the cornerstone of its strategy. This helped instil confidence in the workforce that the insolvent steel plant had a future. "Both customers and vendors accepted us quite well. And we never belied their expectations", said Singhal.

Aside from the mood and morale, Singhal did not face many hassles on the operational side. When it took over BSL, most of the units were operative. The situation demanded maintenance of assets and their balancing. The next step was to help the plant reach the rated capacity of 5.4 million tonnes per annum (mtpa). Till then, the plant had been running at a ramped down capacity, due to lack of raw material and mounting debt.

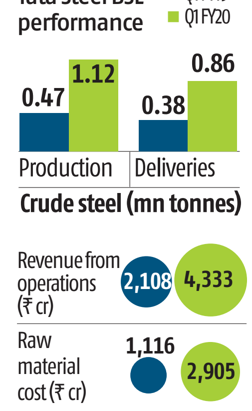
By the next financial year, Singhal expects Tata Steel BSL to achieve the rated capacity and this in turn will give the company a fair amount of leverage in cost structuring. Quarter-on-quarter and year-on-year, Tata Steel BSL is inching closer to the nameplate capacity.

On May 18, 2018, Bamnipal Steel Limited (BNPL), a wholly-owned subsidiary of Tata Steel, acquired a controlling stake of 72.65 per cent in BSL.

The acquisition was in accordance with the approved Resolution Plan under the Corporate Insolvency Resolution Process of the Insolvency and Bankruptcy Code (IBC).

The admitted CIRP cost was met and employees were paid, as required under IBC. Further, settlement of the amounts equivalent to ₹35,200 crore towards BSL's financial creditors is being undertaken. BNPL's investment in BSL was achieved through a combination of equity of ₹158.89 crore and a inter-corporate loan of ₹34,973.69 crore. The acquisition was financed through an external bridge loan of ₹16,500 crore taken by BNPL and investment by Tata Steel in BNPL. The bridge loan is expected to be replaced by debt raised at BSL over time.

STEELING UP



Source: Tata Steel analyst presentation

Following the insolvency resolution, Tata Steel BSL has brought about a significant improvement in the plant's operational parameters. In FY19, Tata Steel BSL logged crude steel output of 4.14 million tonne per annum, higher by 10 per cent year-on-year, propelled by higher mill availability, better maintenance practices, and regular supplies of raw material.

Driven by higher production, sales too grew 6.5 per cent year on year. In Q4 of FY19, sales went up by a robust 23 per cent year on year and 25 per cent quarter-on-quarter.

Other challenges were harder to overcome, namely safety and the environment. "These were two areas where we did a lot of work, made investments and brought in processes and systems. We had a non-negotiable agenda on items like ethics, safety and environment. It helped us in building a very robust plant", said Singhal.

This focus on safety and the environment will continue. "We have to make sure the machines are healthier to operate. This is what we call Sustenance Capex (capital expenditure). Other than Growth Capex, Sustenance Capex will ensure that we get consistent performance", added Singhal.

Only when the groundwork had been done did the management turn its attention to improving the KPIs in areas such as improving blast furnace productivity, improving the coke rate, or achieving the desired parameters.

Acquisitions are always tricky affairs but one reason for the successful integration of BSL was Tata Steel's team — an eclectic mix of experienced and younger professionals, drawn from both companies, who worked on cultural integration.

"We had something like 100 people chosen from different functional backgrounds. The MD and CFO were selected from Tata Steel, while the operational bosses of the blast furnace and steel melting shop came from BSL. Their functional competence determined the selection and they were responsible for instilling Tata Steel's values and aligning with the company's policies", said Singhal.

While there was no juggling or redeployment of personnel at BSL after the acquisition, certain ad-hoc practices of the previous management were replaced by Tata Steel's transparent and uniform policies.

"Tata's culture is built around value systems that are non-negotiable. Our concern was how we institutionalise these values into BSL. That's where we spent a lot of time", said Singhal.

SMEs can call out big firms for dues, thanks to a tweak in IBC

SUBHOMOY BHATTACHARJEE
New Delhi, 3 November

The Insolvency and Bankruptcy Code (IBC) has provided small enterprises in India the window to force large companies to stump up pending dues.

Information utility National e-governance Services Ltd (NeSL) will make public the names of companies that default.

The details will be shared with all creditors that have exposure to the company.

The managing director and chief executive officer (CEO) of NeSL, S Ramann, says it would make banks and other financial institutions that dealt with the defaulting company ask questions.

"If a company has the reputation of holding up payments to its operational creditors, it would raise questions among its financial creditors," he explains.

The Insolvency and Bankruptcy Board of India (IBBI), headed by M S Sahoo, has now tightened a piece of subordinate legislation to make it mandatory for companies that receive queries from NeSL-like information utilities to confirm that there is a bill pending against them from operational creditors. The list of operational creditors often includes small and medium enterprises.

NeSL has been set up by India's leading banks and public institutions and is incorporated as a central government company.

This comes at a time when Finance Minister Nirmala Sitharaman flagged the problems of companies holding up payments to micro, small and medium enterprises (MSMEs).

She has estimated companies can clear ₹40,000 crore to small suppliers and has asked the Ministry of Corporate Affairs to push big companies to do so. It was a one-time effort to clear the dues before Diwali.

The data on the success rate is yet to come. Dues to small and medium enterprises are much larger, at about ₹6 trillion, says Sundeep Mohindru, CEO of M1xchange.

His company runs the biggest factoring service for this sector. Small enterprises can discount their receivables from the big firms on his platform. By doing so these small enterprises can sell those receivables at a discount to banks or other financial companies. The cash they get restores their liquidity.

MSMEs in India land in debt traps on a massive scale because of unpaid dues. This has defied solutions though the government has created plenty of alternatives to tackle it.

"Companies cannot wilfully ignore such messages now," says Ramann. If they do so, after 15 days of the last reminder the bill is deemed to have become a verified piece of paper. The bill becomes a piece of tradable financial instrument that a small enterprise can hawk on platforms like M1xchange to prospective buyers like banks.

This was the missing link in the factoring market. Mohindru points out that his company had been asking the MSME ministry to provide a similar support but had not been successful so far because it did not have the powers. The problem has now been recognised by the Ministry of Corporate Affairs, more specifically the IBBI, and the regulations have been changed.

On the basis of this change, the factoring market, or the Trade Receivables Electronic Discount System (TReDS), can expand massively. The Reserve Bank of India set up TReDS in 2014 as a set of rules to facilitate the trade receivables financing of MSMEs from corporate buyers through multiple financiers. It did not take off and even now the turnover of the business of competing companies like M1xchange on the TReDS platform is just about ₹10,000 crore annually.

"The big constraint was the slow pace at which big companies would acknowledge they had a bill raised against them," says Mohindru. Even if MSMEs produced bills on companies they had supplied goods to, in the absence of corroboration from the other side, it was not enough. The IBBI tweak has solved the problem to a large extent.

NeSL is planning to get support from the Samadhan website of the MSME ministry to collect the data. This was a primary recommendation of the UK Sinha committee, appointed by the RBI. The ministry will provide the data about invoices of small companies raised on big companies for the goods they supply. NeSL will aggregate the data before making the list public. It is up to banks now to recognise the papers and buy those at a discount from MSMEs.

Mohindru expects banks to raise the limits of their exposure for the bill-discounting business from the current ₹5 crore to more liberal levels.

At present, it restricts the scope of the trade on the factoring markets. It will be the next battle for MSMEs.

WAYS TO RECOVER DUES FOR MSMEs

THROUGH MSME SAMADHAAN PORTAL

- **28,443** applications filed by MSMEs, of which **2,107** are against central PSUs
- **₹7,444.10 cr** of dues claimed by MSMEs

RBI INTRODUCED TReDS TO FINANCE TRADE RECEIVABLES

Invoice discounting between MSME supplier, corporate buyer and financier. The invoice is uploaded by either buyer or supplier, depending on the method of discounting and is approved by the other party

IBBI RULES

Invoice to be verified by information utilities in time-bound manner for trading on TReDS

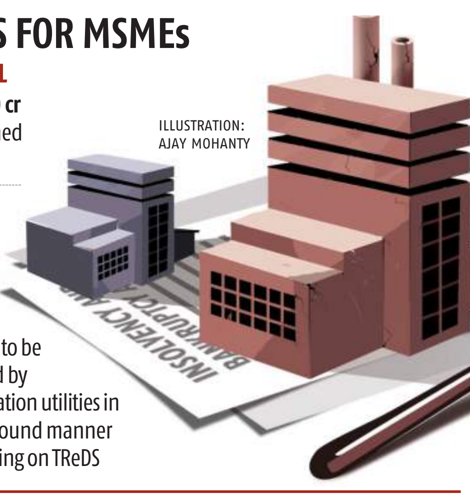
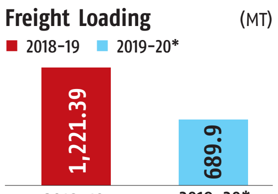


ILLUSTRATION: AJAY MOHANTY

Freight traffic by Rlys drops 0.97% in first 7 mths of FY20

PINNING HOPES ON FREIGHT



Freight earnings	(₹/cr)
1,27,432.72	70,814.72
2018-19	2019-20*

Source: IR *Till November 2

SHINE JACOB
New Delhi, 3 November

Indian Railways' freight traffic witnessed a minor dip of 0.97 per cent during the first seven months of the financial year 2019-20. This time, there was improvement in traffic from sectors such as minerals and ores, petroleum and container.

Till November 2, loading by the Railways was 689.88 million tonne (mt), compared to 683.19 mt during the same time last year. This is despite a considerable dip in key sectors such as coal, cement, iron and steel and foodgrains.

The share of coal that contributes to over 48 per cent of the traffic dipped by 2.3 per cent to 333.1 mt, against 340.94 mt during the April to November 2 period of 2018-19. "The Railways has taken necessary measures to arrest the decline in key commodities like coal. This includes waiver of our busy season surcharge on freight transport starting October," said an official.

STATSGURU

Social security: A distant dream

The periodic labour force survey of 2017-18, which had put the extent of joblessness at a 45-year high of 6.1 per cent, has now been studied in detail by economists. One such study by Santosh Mehrotra and Jajati Parida for the Bengaluru-based Azim Premji University has important insights on the job crisis, faced by today's Indian youth, and the quality of government and private sector jobs in India.

While the transition from agriculture to other sectors is taking place, manufacturing is not providing the necessary buffer before the workforce shifts to the services sector. When the farm sector shed 26.6 million jobs in six years from 2011-12 to 2017-18, the manufacturing sector, rather than absorbing a part this, shed another 3 million jobs. Construction and services sector added 21 million jobs but this was not adequate (Chart 1).

As a result, the number of unemployed youth rose from 9 million to 25 million in that period (Chart 2). Besides, nearly 100 million youngsters today are neither in the labour force, nor are they pursuing education, the authors noted.

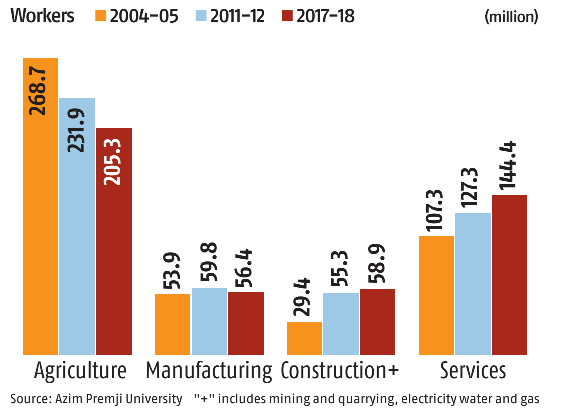
Charts 3A and 3B show that the inclination to keep a firm "unorganised", meaning with less than 10 workers, has risen. At the same time, the propensity to "formalise" the workforce — provide social security — is rising very slowly. Charts 4 and 5 show that both the government-owned and private firms prefer more workers without any work contract. Permanent workers in private firms actually fell in 2017-18, compared to six years ago.

While formalisation in private firms is rising, the pace is slow.

Public firms, however, are increasingly denying social security to workers, show Charts 6A and 6B.

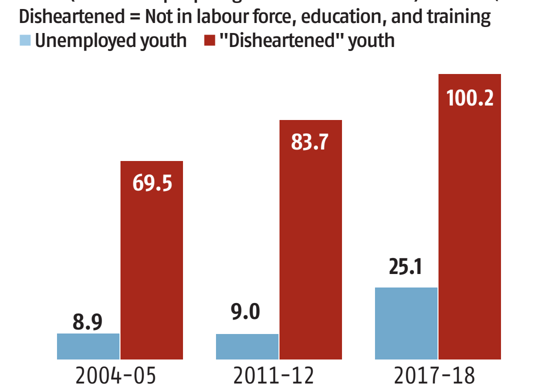
ABHISHEK WAGHMARE

1: FROM AGRI TO SERVICES, SANS MANUFACTURING



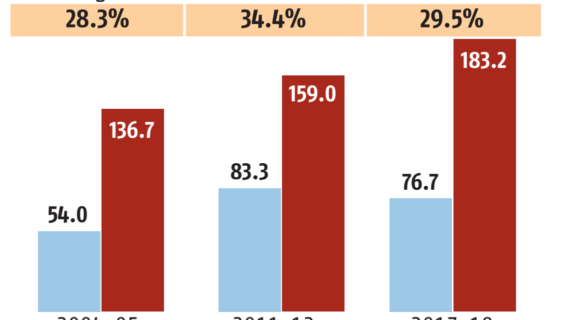
Source: Azim Premji University "+" includes mining and quarrying, electricity water and gas

2: A HUNDRED MILLION DISHEARTENED

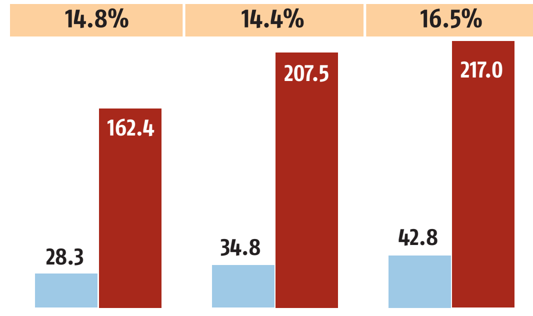


Source: Azim Premji University

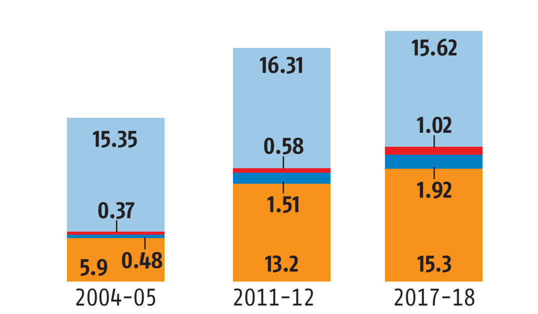
3A: PROPENSITY TOWARDS SMALL FIRMS RISES



3B: SOCIAL SECURITY COVER GROWS AT SNAIL PACE

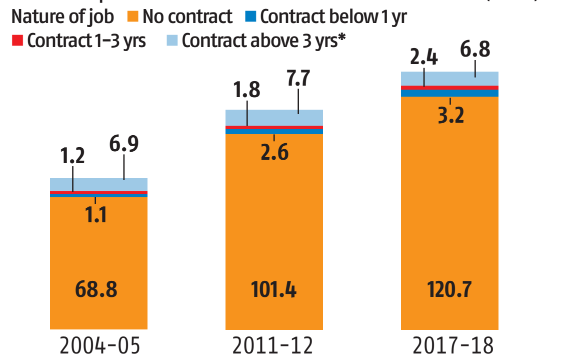


4: GOVT INCREASINGLY GIVES NO-CONTRACT JOBS



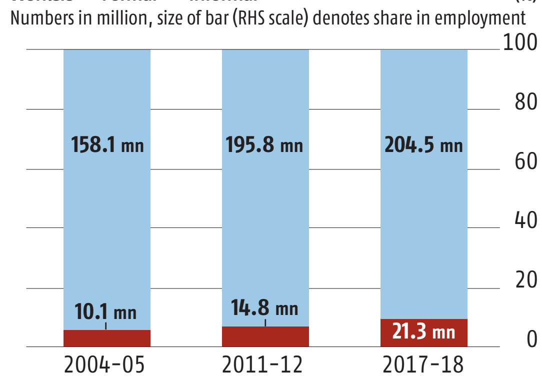
* Loosely translates into permanent worker/employees

5: RISING UNCERTAINTY FOR WORKERS IN PRIVATE FIRMS

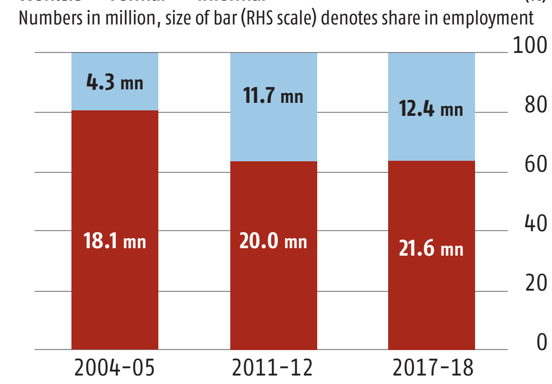


*Loosely translates into permanent worker/employees

6A: FORMALISATION IN PRIVATE FIRMS BARELY 10%



6B: THAT IN GOVERNMENT COMPANIES WORSENS



StatsGuru is a weekly feature. Every Monday, *Business Standard* guides you through the numbers you need to know to make sense of the headlines

Compiled by BS Research Bureau