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Performance analysis of

BINANI CEMENTS LIMTED

Pre, During & Post CIRP

A case-study

Binani
BRAJ BINANI GROUP

Binani Cement

Binani Cement Limited

Performance analysis of Binani Cements Limited
Pre, During and Post CIRP

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The enactment of the Insolvency and Bankruptcy Code, 2016 has brought about a tectonic shift in the entire business rescue mechanism of the country. It has provided for the re-organization of businesses in a time-bound and effective manner while simultaneously protecting the creditor's rights, along with balancing the interests of all the stakeholders. Under the previous regimes, the creditors were left at the mercy of the debtors. However, post the implementation of IBC, the credit culture of the borrowers has seen a paradigm transformation.

The enactment of the IBC is often hailed as the biggest economic reform post the Liberalization, Privatization and Globalization reforms of 1991. This is because it has provided companies with a smooth exit option. Companies are now able to resolve their stress in a cost effective manner and this has also led to value maximization of the business. At the center of the entire rescue mechanism under IBC, is the Resolution Professional (RP). The role played by an RP is pivotal to the entire process and a lot of the success depends on the skills, competence and commitment of the RP. There have some great success stories under the new regime and this article is a step to highlight one such company.

This article is a case study on the resolution of Binani Cement Limited. It provides a glimpse of the operational and financial performance of Binani Cement in the 'pre', 'during' and 'post-CIRP' phases. The case study delves into the details of the business operations of the company and the reasons that led to stress. It also tries to explore the future prospects of the company.

Synopsis

The Corporate Insolvency Resolution Process (CIRP) of Binani Cement commenced on 25th July 2017, and the resolution plan was approved on 19th November 2018. The financial health of Binani Cement Limited deteriorated post the financial crisis, mainly due to slowdown in construction sector, high cost of operations, lower capacity utilization, overseas expansion, penalties imposed for environmental destruction and external business environment in the infrastructure industry.

During the Corporate Insolvency Resolution Process, a lot of companies showed interest in Binani Cement in the first round of bidding in late 2017. CRH, Lafarge Holcim, Heidelberg Cement, India Cement, Orient Cement, Ramco Cement, Shree Cement, UltraTech Cement and Piramal Group were all linked to the auction. Eventually UltraTech Cement, JSW Cement, Ramco Cement, Heidelberg Cement India, Dalmia Bharat and a pair of Indian investors submitted bids and JSW Cement emerged as the winner with a bid of US$ 919 million. However, the emergence of an additional liability of around US$250m scuppered the auction when it turned out that Binani Cement had offered a corporate guarantee for the acquisition of a fibreglass asset in Europe known as 3B in 2012 by Binani Industries. By February 2018 the next auction was in progress and this time Dalmia Bharat Cement and UltraTech Cement led the race. Dalmia Bharat won the second auction with a bid of around US$1.03bn made in a consortium with Bain Capital's India Resurgent Fund and Piramal Enterprises.

At this point, the situation might have conceivably slowed down. Instead, UltraTech Cement kept on fighting and queried the entire bidding process. It then made a direct offer of US$1.11bn to

Binani Cement in the form of a so-called 'comfort letter' that Binani Industries used to stop the insolvency process. At the same time it received approval from the Competition Commission of India in its bid for Binani Cement, the previous absence of which was one of the reasons its bid against Dalmia Bharat was rejected. The 44-page NCLAT order has shed a different light on the crux of the issue. According to the findings of the adjudicating authority, the CoC had, in fact, ignored the revised bid by UltraTech submitted much before the approval of Dalmia's plan, thereby failing to realize the intended purpose of resolution — one of maximization of value for all stakeholders. The NCLAT also found that the COC had failed to safeguard the interests of all stakeholders even while approving the resolution plan of Dalmia Bharat. By noting that a lesser percentage of claim was given to a certain set of similar creditors, the NCLAT found Dalmia Bharat's resolution plan 'discriminatory' against some operational and financial creditors.

The company was finally taken over by Aditya Birla Group owned Ultratech Cement and the new buyer has since renamed 'Binani Cement Limited' as 'Ultratech Nathdwara Cement Limited' and is running the operations successfully. Through its offer of Rs 7,950 crore for the asset, Ultratech has gotten the ownership of a 6.25 MT plant in the state of Rajasthan that comprises an integrated cement unit with capacity of 4.85 MT and a 1.4 MT split grinding unit. This paper provides an analysis of the operational and financial performance of the company in the pre, during and post CIRP phases.

Company Profile

Binani Cements was one amongst the large number of subsidiaries and step-down subsidiaries under of the umbrella of Binani Industries Limited. The company was incorporated on 15th January 1996 as Dynasty Dealer Private Limited. The name of the company was changed to Binani Cement Private Limited and a fresh certificate of incorporation was issued to it by the ROC on 23rd April 1998. Subsequently the company was converted into a public company and the name was changed to 'Binani Cement Limited' vide a fresh certificate of incorporation dated 06th October 1998. What started off with a small capacity of 1.65 MTPA plant at Rajasthan, went on to become a global cement- manufacturing company, with an integrated plant in India, a clinker unit in China and a grinding unit in Dubai. Binani Cement was amongst the most popular cement brands in the western and northern markets of India known for its quality and consistency in international markets as well.

Company's Operations and Distribution

Binani Cement set up its first manufacturing plant in Binanigram, Rajasthan with a capacity of 1.65 million tons per annum (MPTA), in the year 1997. Over the years the company increased the capacity to 6.25 MTPA. After its success in the India market, Binani Cement expanded its global reach by setting up an integrated plant in China (Shandong Binani Rongan Cement Co. Ltd) with a capacity of 3 MTPA and a grinding unit in Dubai (Binani Cement Factory LLC) with a capacity of 2 MTPA. The aggregate global manufacturing capacity of the company stood at 11.25 MTPA. It also has limestone reserves of approximately 208 million tons which is capable of serving the needs of the company for another 30 years. Binani Cement is amongst the most popular cement brands in the western and northern markets of India and has a well-established sales network in UAE, UK, Sudan, South Africa, Tanzania, and Namibia.

Product range of the company

Ordinary Portland Cement (OPC)- This is a general-purpose, high-strength cement that is used for a wide range of applications covering ordinary, standard, high-strength concrete, plastering work and masonry, and precast concrete products. It combines with water, sand and stone to form a durable and strong construction concrete, capable of bearing great loads and is therefore widely used in civil engineering construction work. Binani Cements produced OPC cements of grade 43 and 53.

Pozzolona Portland Cement (PPC)- Portland Pozzolana cement is ordinary Portland cement intimately blended or interground with pozzolanic materials such as fly ash, calcined clay, rice husk ash etc. Portland cement clinker is either interground or intimately blended with specified quantities of gypsum and pozzolanic materials to produce Portland Pozzolana cement. The concrete produced by using Portland Pozzolana cement has high ultimate strength, is more durable and has a high degree of cohesion and workability in concrete. As a result, it has greater resistance to the attack of aggressive waters. PPC is the preferred choice of cement for building hydraulic structures, mass concreting works, marine structures, masonry mortars and plastering.

Ground granulated blast-furnace slag (GGBFS)- Ground-granulated blast-furnace slag is obtained by quenching molten iron slag (a by-product of iron and steel-making) from a blast furnace in water or steam, to produce a glassy, granular product that is then dried and ground into a fine powder. It is used to make durable concrete structures in combination with ordinary Portland cement. It is known for its durability, extending the lifespan of buildings from fifty years to a hundred years. Binani Cements produced GGBFS of grade 120.

Reasons for financial stress in BCL

Binani was a victim of an attempt to expand during the construction slowdown. The company's goal was to expand in China at just the time when Indian construction sector slowed and became sluggish and financial markets crashed. The Chinese authorities prohibited further cement capacity expansion, preferring rather an industry consolidation and the decommissioning of inefficient wet-process plants. Another project to expand the company's production base with a new plant in Mauritius was scrapped in October 2012 when Binani Cement could not secure enough land for a 6.5-hectare site for the factory. Between 2013 and 2015, Binani Industries had been forced to sell a 40% stake in Binani Cement to raise capital. However, India's construction market slowdown was the final blow to Binani Cement. In February 2015, company sought to sell its 1.2 MTPA 'Neem Ka Thana' grinding unit in Rajasthan to reduce its debt; the deal didn't go through. In August 2016 Binani Cement was among 11 companies to have penalties imposed after the Competition Commission of India market price fixing allegations were investigated. The fine imposed was equivalent to 50 per cent of the company's net profits in the years 2009-2011. Further, majority of sales made to related parties were unrealised leading to shortage of funds and company's debt increased from Rs 103.98 crores in the year 2013 to whopping Rs 327.18 crores in financial year 2017.
Apart from the above factors, construction slow-down had created pressure on prices of cement due to over-capacity and lower demand from the commercial real-estate segment. High input costs also impacted profitability negatively.

Failure of Corrective Action Plan

The restructuring of the existing term loans was necessitated on account of lacklustre demand, decline in realizations, increase in costs and other extraneous circumstances including the impact of Rajasthan VAT. The consortium of banks had agreed to restructure the account under Joint Lenders Forum (JLF) Mechanism. While a Corrective Action Plan (CAP) was finalized by JLF and Master Restructuring Agreement was signed, some of the consortium lenders had not sanctioned the facilities as per CAP and other lenders who had sanctioned facilities as per CAP did not disburse or partially disbursed the facilities as per CAP. As a result, the CAP could not be implemented in full within the time frame prescribed by Reserve Bank of India. Due to non-disbursement of facilities and partial implementation of CAP, the company could not honour its debt obligation in time resulting in the CAP being "declared as failed" by the lenders, and the company being taken to NCLT under the Code.

Performance Analysis

The performance of Binani Cements Limited, pre, during and post CIRP can be adjudged by measuring the impact of insolvency resolution on some of the key performance indicators of the company. The table below shows the changes in some of the important performance indicators such as sales, profitability, inventory management, cash flows, etc, as the company passed through the three different phases of insolvency, CIRP and successful resolution.

(₹ in lakhs)

Performance Indicators	2016-17	2017-18	2018-19	2019-2020
Net Profit Ratio (%)	-17.58%	-82.16%	-35.54%	4%
EBITDA Margin (%)	7%	-36%	10%	36%
Interest Coverage ratio (Times)	0.06	-1.39	0.11	1.13
Debt to Equity Ratio	30.82	18.36	1.19	1.21
Debtors days	109.82	109.33	35.67	0.66
Return on Assets	-6%	-38%	-10%	1%
Return on Capital Employed	1%	21%	4%	28%
Net Cash Flow from Operating activities (in lakhs)	6,760	12,890	-52,506	42,011
Basic EPS	-19.47	-205.44	-12.48	0.15

Source: Annual Reports for FY 2016-17, FY 2017-18, FY 2018-19, FY 2019-20

Pre and During CIRP

Before the commencement of CIRP, the plant operations were already halted since 23rd July 2017 due to shortage of working capital and non-supply of coal. However, the Resolution Professional resumed the plant operations from 11th August 2017. Further, company's net operating cash flows reflected an increase of 90% during the CIRP period as a result of better management control and operational efficiency which arrested progressive decline in key performance indicators witnessed in the period prior to CIRP.

During and Post CIRP

At the time when the resolution professional assumed office, the company was non-operational. The resolution professional after discussions with management and creditors started operations at the company's factory- which is in tandem with the objective of the code i.e., to keep the company as a going concern and restoring the health of the company. The results of the financial year(s) 2018-19 and 2019-20 show a positive trend in most of the performance and operational ratios. This is testimony to the fact that the resolution professional and the new management were able to successfully steer the company, towards the right direction, within a short span.

The net loss of the company gradually decreased during 2018-19 and finally turned positive 4% in the year 2019-20. The company's performance in terms of financial ratios also improved in the post CIRP period. The interest coverage ratio which measures how many times a company can cover its interest payments with its available earnings, improved in year 2018-19 primarily on account of higher operating profits and reduction in finance cost on account of reduction in external borrowings which has also resulted in a favourable debt equity ratio. The debtor days measures how quickly cash is being collected from debtors. It shows the time taken to convert sales to cash. The company's debtor days improved drastically from 109 days during CIRP to a mere 35 days post CIRP, which shows substantial reduction in time taken to convert sales into cash. This helped in better working capital availability to the company and also a significant improvement in company's net operating cashflows.

The Return on capital employed measures profits earned by the company by using its capital. The company had an eroded capital employed ratio during CIRP period which improved to 4% post CIRP and in year 2019-2020 it increased significantly to 28% which shows efficient deployment of funds into high profit generating projects. Even the Return on Assets, that was negative for consecutive years, finally turned positive in the FY 2019-20.The Net Cash Flow outflow from operating activities was approximately Rs. 525 crores in FY 2018-19. This was on account of the amount paid off to the operational creditors after the of the resolution plan. Despite the huge payment made, the cash balance remained positive, the next year saw a drastic improvement in operational cash flows, which stood at Rs. 420 crores.

Future outlook

The Indian Construction Industry witnessed a contraction of 50.3%[i] in Q2 of year 2020, despite that the industry is expected to post a sharp rebound and grow by 11.6% in 2021 owing to lower base and pent-up demand. In August 2020, the Prime Minister announced that INR 111 trillion (US$1.5 trillion) will be invested on 7,000 projects across various sectors between FY 2020-25, which will enable the faster revival of the economy and aid in boosting employment. The industry's growth will also be supported by the government's focus on boosting the local manufacturing sector to become self-reliant and reduce dependency on imports. In addition, the government targets to construct 10 million affordable houses by 2022 and increase the share of renewable energy in total installed power capacity to 60% by 2030. This will support the industry's growth over the medium and long term. As several major trends play out at the national and global levels, including infrastructure upgrades and smart city initiatives, firms have opportunities to play central roles.

With the acquisition of Binani Cement, UltraTech has strengthened its already existing position of the largest cement manufacturer in India. Ultratech has been keen on expanding its market presence since the year 2017 when it went on an acquisition spree by acquiring six integrated plants of Jaypee Associates and added capacity of 21.2MT. Further, it also acquired the cement business of Century Textiles and Industries. The acquisition of Binani Cements provides UltraTech access to large reserves of high-quality limestone. It also consolidated the company's leadership in the fast-growing Northern and Western markets in the country. Recently in July, 2020 UltraTech Cement announced its plan to divest its entire 92.5 per cent stake in China's Shandong Binani Rongan Cement Company. It is part of UltraTech's strategy to sell-off its non-core assets and use the proceeds to deleverage the balance sheet.

Ultratech looks to sell the associated global assets it inherited with the recent acquisition of Binani Cement in an insolvency-driven process. The global assets that UltraTech plans to sell include the Binani 3B - the Fibreglass Company, with plants in Europe and Goa; a three-million tonne per annum (MTPA) joint venture cement plant in China; and a 2.5 MTPA grinding unit in the UAE. Binani Cement owned a 49 per cent in the UAE venture. As per market estimates, if UltraTech manages to sell all the three assets, it will recover close to half of the ₹7,900 crore paid for the acquisition of Binani Cement.

Conclusion

The Insolvency and Bankruptcy Code provides for a time bound process within which a stressed company has to be resolved. This ensures that the value of the assets is maximized and that the losses of the creditors are reduced. Most of the times businesses fail because of the poor decisions of its management and not because of the viability of its operations. The success of a resolution depends on multiple factors. The role played by an RP is one of the most important ones. The underlying asset base and the future prospects are also factoring that determine the value that prospective resolution applicants will be willing to pay for a stressed company. Binani Cement is a prime example of a company that had a strong asset base but was facing financial and operational stress. Under the umbrella of Ultratech Cement, the company has a huge scope of improving its operational efficiency. As per recent media reports, UltraTech is planning to ramp-up the production capacity of the UltraTech Nathdwara Plant.

During the CIRP, a total claim of Rs. 7202.36[ii] crores were admitted by the Resolution Professional, out of which Rs. 6469.36cr belonged to the financial creditors and Rs. 733cr belonged to the operational creditors. Of this, the financial creditors were able to realize 100% of their claims while the operational creditors were able to realize an amount of Rs.633.64cr, which is approximately 86.44% of their admitted claims. This makes the takeover of Binani Cement by the Aditya Birla Group one of the most successful resolutions under IBC. However, it remains to be seen what the growth trajectory of the company will be in the near future.

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