



## **CLEAN UP, CAPITALISE & RESTRUCTURE**

The Surest Way to Prosper in Testing times

# This is what we do



Corporate Finance Advisory - Restructuring,  
Private Equity and Debts



CMA template for restructuring. Also holds documents  
needed for SME. Planning a valuation tool



Transmitting shares to legal heirs and claiming  
shares from IEPF



<https://cma.docskart.com/>

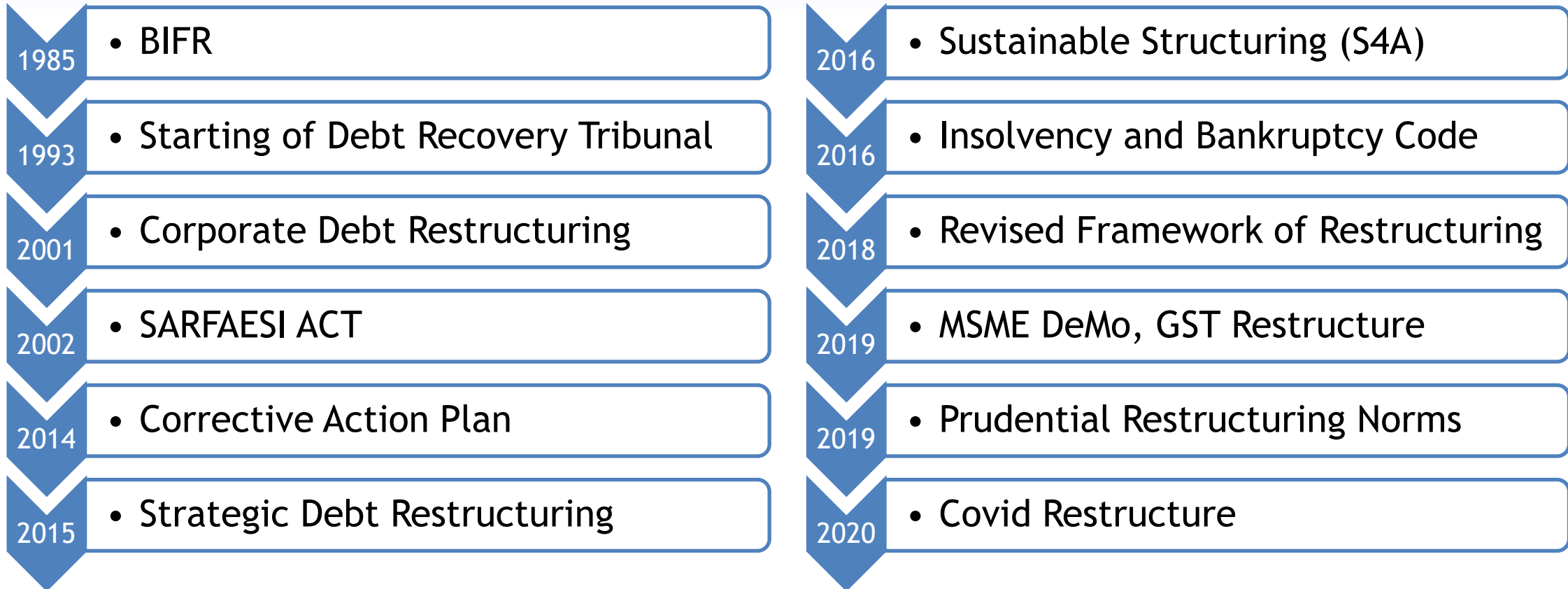


# A few Resources on Restructuring

- Projections and CMA can be generated based on three years financials. [Visit for more details](#)
- This presentation on one time restructuring of loans can be [downloaded here](#).
- Loan Restructuring cum CMA template generated can be [downloaded here](#).
- All relevant notifications on one time restructuring can be [downloaded from this page](#).
- Finance Minister's presentations on Atmanirbhar Bharat can be [downloaded from this web page](#).



# History of Restructuring



# MSME Definition Change

Updated MSME Definition		
Type of Enterprise	Investment	Turnover
Micro	Rs 1 Crore	Rs 5 Crore
Small	Rs 10 Crore	Rs 50 Crore
Medium	Rs 50 Crore	Rs 250 Crore

- Export turn over not included
- There is scope to revise turnover upper limit to Rs 500 crores for medium Enterprises.



## **CLEANUP, CAPITALISE & RESTRUCTURE**

A Quick Look at the Post Covid Financial Support Scheme Provided so far



## RBI MEASURES

- ❑ Old Loan restructuring & additional Finance to the extent of 10% of loans for Small loans
- ❑ Reduction in CRR to increase loan to Industry
- ❑ Temporary Loans to avoid NPA
- ❑ Reduction in Margin to increase DP

## Covid Loan

- 20% Loan given. One year principal moratorium, 3 year repayment (1+3 years)
- Interest rate Max , NBFC 14%, Banks 7.75 %
- Companies with Loans up to Rs. 25 crores were eligible.
- Increased to Rs. 50 crores.
- This means up to Rs. 10 crores support is possible.
- No new additional securities. Covered under CGTMSME.
- Total Outlay Rs. 3,00,000 crores

## Subordinate debt

- ❑ Promoters of Companies under SMA or NPA as on 30th April 2020.
- ❑ 15% of the capital introduced by the promotor subject to a maximum of Rs. 75 Lacs. This is for promoters; 4 Promoters means loan up to Rs. 3 Crores.
- ❑ 7 years moratorium and 3 years repayment. Interest to be serviced.
- ❑ Interest - More or less @ same interest plus 1.50% credit guarantee charges.
- ❑ 10% Collateral to be provided.
- ❑ Total Outlay Rs. 20000 crores

## Support to Startup

- Should have received funds from an AIF.
- Minimum turnover of Rs.10 crores and maximum Rs.60 crores.
- Assistance up to Rs.200 lacs
- Start ups as per the definition of Start up India
  - Vintage less than 10 years.
  - Turnover less than Rs. 100 Crores
  - Private Limited, LLP or Registered Partnership
  - should be innovative and scalable.

## Support to Startup

### Conditions

- Cannot be used for paying off debts.
- Not a subordinate Debt
- Cannot sell Promotor's equity without SIDBI permission.

Max Loan Amount - Rs. 200 Lacs.

Secured by Current Assets and Keyman Insurance.



## Equity Support to SME



### Fund of Funds details as on 31/03/2020

Picture and data - Courtesy SIDBI VCF

### FUND OF FUNDS

- Total Outlay projected - Rs. 50,000/- Crores
- Method of Operation - SIDBI - Venture capital fund of funds (Rs.50,000 Crores).
- This fund will be run in line with existing funds for startups
- Fund was setup in 2016 with a corpus of Rs.10,000/- Crores. Various AIF (Alternate Investment funds) can avail fund.
- AIF needs to add twice the amount invest in start ups.

# Fund of Funds Process



Indicative Process Followed by SIDBI

Picture and data - Courtesy SIDBI VCF

<https://cma.docskart.com/>



# **CLEANUP, CAPITALISE & RESTRUCTURE**

The Need & Methodology

# The Need - An Introspection

## Ecosystem

- ❑ Compliance, Tax Payment & being on the right side of the Law have never been our long suit
- ❑ MSME's without additional owner's Equity
- ❑ NPA averse Banking system doing Window dressing
- ❑ Tax System & manageable tax administrations and cash in business.
- ❑ CA's insisting on growing within a bandwidth of XX % of sale and profit.



## Govt Actions

- ❑ VDS was a precursor to Govt actions to follow
- ❑ Demonetisation that has changed the way business operated and prospered. No time was given to adjust to the new normal.
- ❑ GST implementation with scores of problems
- ❑ Basel IV norm and IBC makes working in old ways impossible.

**All in all Covid-19 and the earlier Govt actions has forced businesses change ways of working. Clean up is imperative.**

<https://cma.docskart.com/>

## And Now COVID-19

- ❑ Possible reduction in demand - Reduced sale will make MSME finances vulnerable
- ❑ Labour not returning in time - Most of the businesses in MSME sector are migrant labour dependent
- ❑ Sustaining artificial growth is not possible



## Rejuvenating MSME

### The Disease

- ❑ Past ways of working, DeMo and GST implementation before Covid-19 created untenable situation for MSME
- ❑ It is an ecosystem driven Stress. MSME cannot prosper unless Balance sheet reflects real situation.
- ❑ We have to internally recognise the stress in the system, regardless of whether bank has identified or not.



### The Symptoms

- ❑ You have taken Covid Loan Moratorium from April'20.
- ❑ Your actual stock and receivables are lower than what is shown in books.
- ❑ You have to pay money to more people than what is shown in Balance sheet.
- ❑ You have trouble in meeting term loan repayment and every time you have to pay a term loan instalment, you have to collect money specifically for paying the instalments.

<https://cma.docskart.com/>

### The Cure

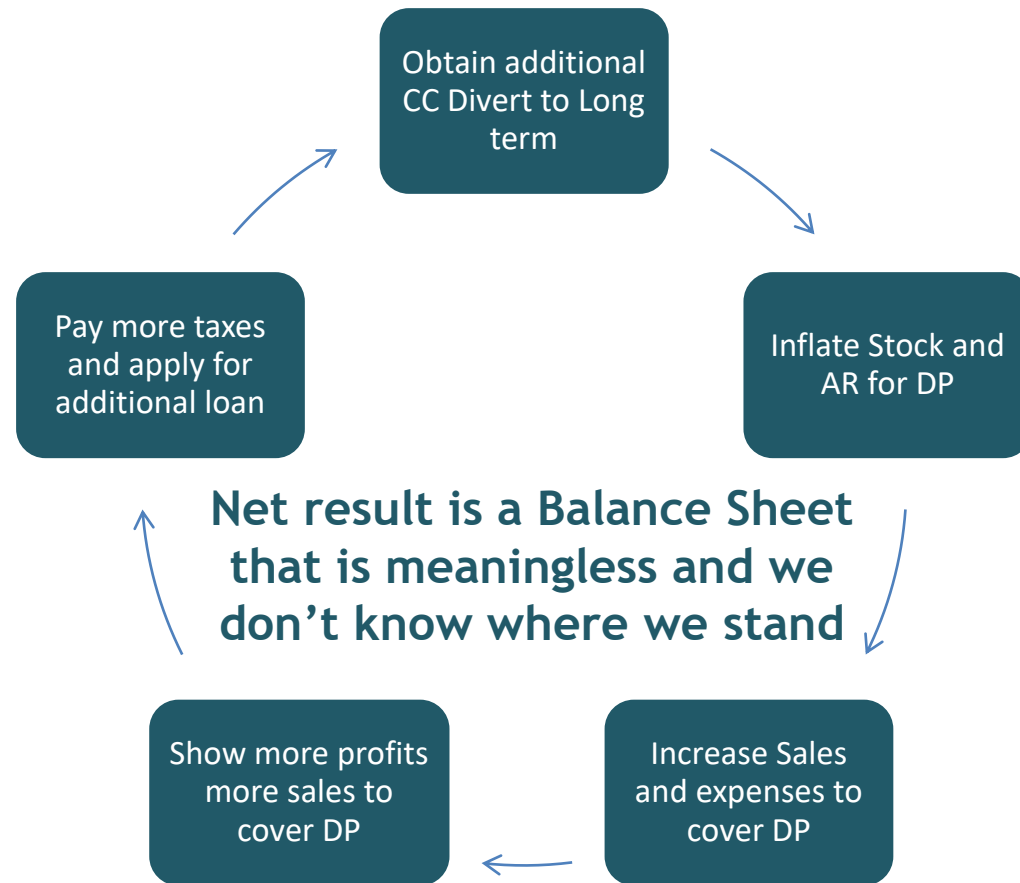
- ❑ If you have any of these symptoms, it is time you seriously thought of cleansing
- ❑ You need to
  - ✓ Clean up your balance sheet in a structured manner
  - ✓ Re-Capitalise
  - ✓ Restructure Loans

**Restructuring Scheme announced by RBI is virtually God sent**





# Time to Change this



*Unless there is an amnesty scheme for MSME, no amount of policy change can help. The basis of all calculations are Balance Sheet numbers which are blatantly wrong. One-time amnesty should be provided. MSME should be asked to clean up the Balance Sheet. Else, no policy change would suffice.*

RBI has announced one time restructuring of loans to MSME. It is a great opportunity.



## Cash flow for Restructuring

Particulars	2021	2022	2023	2024	2025	2026
<i>Profit After Tax</i>	-250.00	20.00	120.00	360.00	860.00	1200.00
<i>Add: Depreciation</i>	969.77	782.61	852.19	910.57	955.75	1003.19
<i>Add: Interest</i>	240.19	721.72	301.84	335.68	596.57	601.60
<i>Less Changes in CAPEX</i>	-603.29	-702.44	-509.41	-542.45	-577.91	-615.98
<i>Less: Changes in Working Capital</i>	-1250.00	-1000.00	-595.00	-440.00	-341.50	-464.38
<i>Free Cash Flow to firm</i>	<b>-893.33</b>	<b>-178.12</b>	<b>169.61</b>	<b>623.80</b>	<b>1492.92</b>	<b>1724.42</b>
<i>FCFF + TV</i>	-3104.43	2096.22	2256.06	2470.78	2770.19	3110.18

1

- Ascertain your exact net working capital - Actual stock plus receivable minus creditors

2

- Prepare a realistic projection showing actual sales, expenses and cash flow.

3

- Convert the excess CC based on DP as Term Loan and prepare a schedule

4

- Ask for a Term Loan restructuring and increase in CC based on your projection under the new restructuring norm.

1

- Restructuring is not a blanket permission. Promoters have to demonstrate intent and skin in the game.

2

- Proper capital from promoter is needed. Check whether net worth is 25% of Term Loan plus working capital.

3

- If you have adequate net worth, you are good to go. If not, find ways to increase net worth. Government has announced various schemes. We have friends too.

4

- Once you are ready, make a complete restructuring proposal and submit to your banker. All the best.

# Restructure - Eligibility

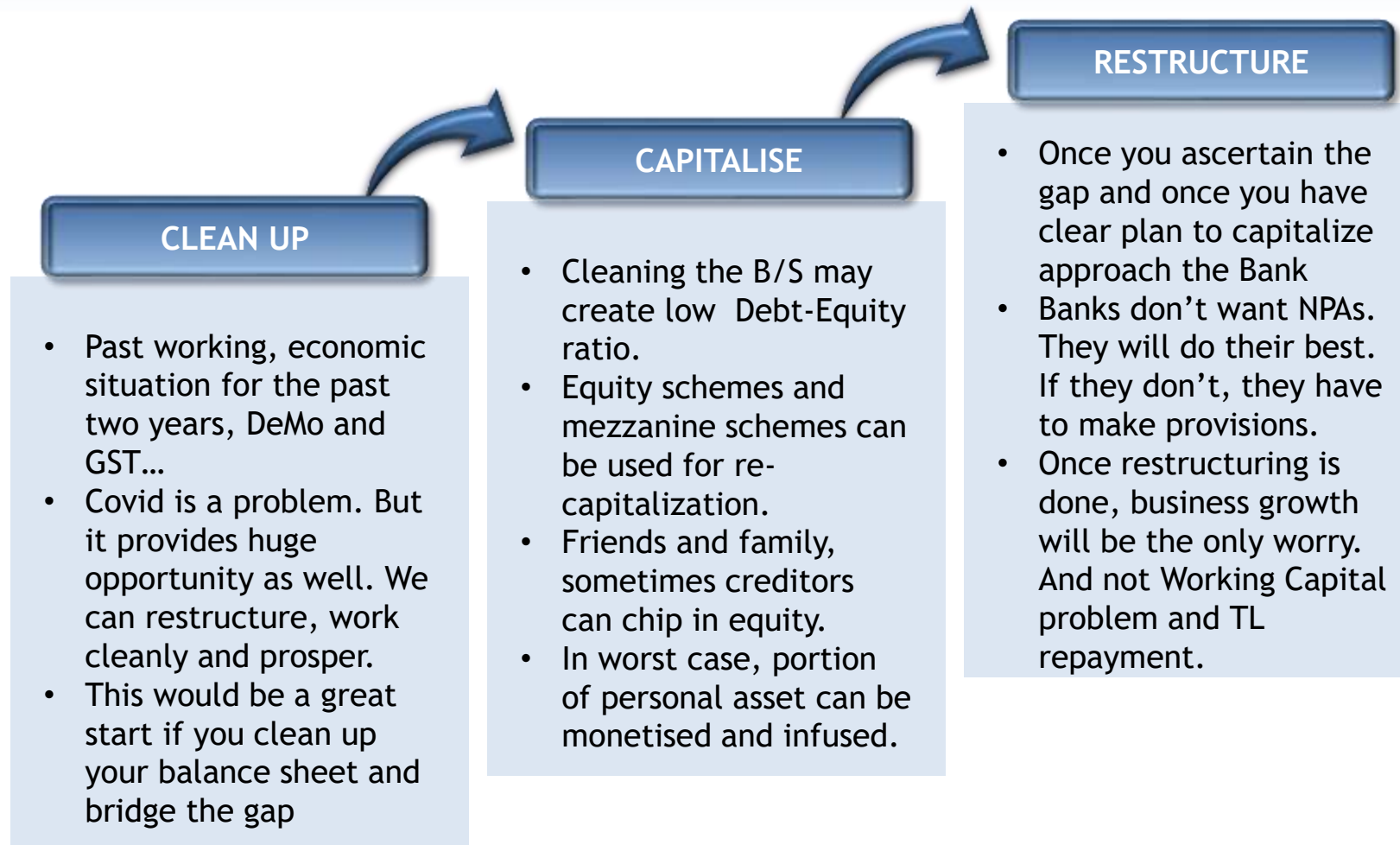
### SME < Rs.25 Cr Borrowing

- As on 1<sup>st</sup> March 2020 account should be standard.
- This means, it can be SMA-0 or SMA-1 or SMA-2 at the end of February 2019
- If eligible, the account can be restructured. Application should be made before 31<sup>st</sup> Dec, 2020
- Restructuring Process should be complete by 31<sup>st</sup> March

### > Rs.25 Crores Borrowing

- As on 1<sup>st</sup> March 2020 account should be standard and should not be SMA-1 or SMA-2. Can be SMA-0
- All other deadlines are same as in case of borrowings less than Rs.25 Crores.
- In both cases, Prudential Restructuring Norms of June, 2019 should be followed

## Restructure - The Process



# Concessions to ask from Banks

1

- Restructuring of Term Loan should correspond to your cash flows. We can ask for interest reduction, principal and interest moratorium including balloon payments

2

- Conversion of excess between book DP and actual DP. Reducing/Increasing limit suitably based on projections

3

- Haircut - Reduction in liability - in exceptional cases. Prudential Restructuring Norms (PRN) provide for it.

4

- Conversion of debts to Optionally Convertible Cumulative Preference Shares (OCPS). This will help in Debt-Equity ratio. PRN provides for it.



### ...in the following ways

- Go to the link below, feed three year data, loan details and answer a few basic questions. We will provide you an excel model. Your CA can change it.
- We can work with you and prepare tailored model and restructuring document.
- If you are in TN/South India, we can take up restructuring assignment.



Photo Courtesy: CNBCTV18

## Appendix - Prudential Restructuring Norms

- Firms were chosen by Asset Quality Review (AQR), done by bankers. Thanks to Covid-19 borrower can apply for restructure.
- Individual Customers who feel stress can also apply. They may have managed repayment. Yet, it pays to have a restructuring done.
- All banks and financial institutions have to enter into “Inter-Creditors Agreement”(ICA).
- ICA has to be entered into within 30 days of application.
- Bank can extend the period of loan, give moratorium up to two years - for interest and principal - take haircut, add more money into the system.

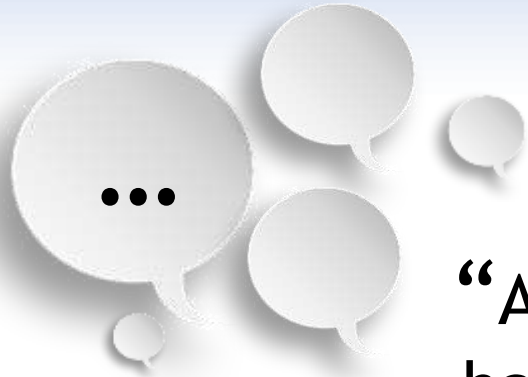


# Appendix - Clean Up Process

- For starters, they should have close look at the following.
  - Actual realisable stock vis-à-vis what is given in the books for DP Purpose.
  - Actual Receivables vis-à-vis what is given to the banks for DP purpose.
  - Actual Payables vis-à-vis what is given to the bank for DP purpose.
- Recast DP and deal with the excess working capital utilised by
  - Converting to term loan with or without moratorium.
  - Converting to optionally Convertible Cumulative preference shares at lower coupon rate.
  - Pay off a portion by selling property etc.
  - A combination of above.
- Then they should have a closer look at the cashflows in the aftermath of COVID-19. Have a closer look at the debt repayment obligations - both term loan and EMI and then ask the bank and NBFC to
  - Restructure cash flow to match the cash flow.
  - Ask for moratorium
  - Interest reduction
  - Pay a portion without repayment by selling assets or raising capital if required
  - Convert portion as OCCPS



**We are just an email or a phone call away**



“After all, your business most important asset you have and it is worth securing at all costs. This is a golden Opportunity. We can be of help. Contact us.

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