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CENTFIN:2022:

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Reg: IL&FS Financial Services Limited (IFIN) – E-voting for purchase consideration of INR 370,00,00,000 offered by UV Asset Reconstruction Company Limited (“UVARCL”) for the acquisition of the Non-Performing Asset Portfolio (“NPA Portfolio”) of IL&FS Financial Services Limited (“IFIN”) for the monetization programme as a part of the on-going Group Resolution in IFIN in terms of NCLT order dated 01.10.2018.

Present Proposal:-

To approve recording of our vote in the E-voting process for the monetization programme as a part of the on-going Group Resolution in IFIN in terms of NCLT order dated 01.10.2018:

Resolution Proposed

RESOLVED that the purchase consideration of INR 370,00,00,000 offered by UV Asset Reconstruction Company Limited (“UVARCL”) for the acquisition of the Non-Performing Asset Portfolio (“NPA Portfolio”) of IL&FS Financial Services Limited (“IFIN”), comprising of 62 accounts, payable in the manner stipulated in the agreed form of the agreement to assign and deed to assign, copies of which has been shared with the members of the Committee of Creditors of IFIN, be approved by the Committee of Creditors of IFIN, in accordance with the provisions of the Third Progress Report dated December 17, 2018, the Addendum to the Third Progress Report dated January 15, 2019 and the Second Addendum to the Third Progress Report dated December 5, 2019.

DETAILS OF RESOLUTION PLAN:

As a part of the ongoing resolution process, the New Management of IL&FS Financial Services (IFIN) has initiated sale of IFIN's Non-Performing Asset Portfolio (NPA Sale Portfolio).

Resolution process for the IL&FS group (which includes IFIN) is being undertaken in accordance with the provisions of Sections 241/ 242 of the Companies Act, 2013, and not under the Insolvency and Bankruptcy Code, 2016. The board of directors of IL&FS had submitted to the Ministry of Corporate Affairs, a "Resolution Framework", which was in-turn filed with the National Company Law Appellate Tribunal ("NCLAT"). The "Resolution Framework" set out in brief the process that would be followed for resolution of the IL&FS group. The "Resolution Framework" inter alia outlined that an asset level resolution strategy was deemed by the New Board as a preferred mode of resolution as compared to a Group level resolution for value maximization purposes and stakeholder engagement as majority of the debt liabilities also exist at the operating asset level, which if resolved would facilitate resolution of the Vertical Hold Cos leading up to IFIN and IL&FS. The Asset Level Resolution framework thus adopted contemplates a price discovery process for sale of companies and a transparent process for inviting financial bids for sale of such companies and distribution of the financial bid amount to the relevant stakeholders. The NCLAT vide an order dated March 12, 2020 approved the "Resolution Framework" in its entirety.

About the Non-Performing Asset Portfolio ("NPA Portfolio") and Recovery of IL&FS Financial Services Limited ("IFIN") :-

The representative of the Resolution Advisor apprised the COC that Sale Process for the NPA Sale Portfolio for 69 identified NPA loan accounts (from external loan portfolio of Rs. 5,959 Crores as on Oct-2018) was launched on November 9, 2020. He informed that IFIN is having total outstanding loan and investment book of Rs. 18,641 Crores as of October 2018. Out of which IFIN has recovered Rs. 2,624 Crores till November 30, 2021 from its external and internal portfolio. Details of the same are as under:-

(Rs. In Crores)

Particulars		IFIN Book As on Oct-18	Recoveries Till 30-Nov-2021
External	Loans	5,959	1,943
	Investment	3,452	401
Group	Loans	5,808	151
	Investment	1,173	129
Group Referred	Loans	2,250	-
Total		18,641	2,624

The representative of the Resolution Advisor informed that as on November 30, 2021, IFIN had a cash balance of Rs 2,728 Crores (net of recoveries from the NPA Sale Portfolio post July 16, 2021). He further added that IFIN was incurring operating expenses of Rs. 3.5 Crores on a monthly basis and had reduced its operating expenses by over 70% since October 2018. IFIN is accruing Rs. 8 Crores as interest on its fixed deposits monthly and that as of March 31, 2021, the GNPA to total loans stood at 97.83%.

He further informed that none of the recoveries so far have had haircuts and have been full recoveries. It is important to note that the current recovery of INR 1,943 crores from the external loan portfolio did not include any haircuts, in fact other than principal, full accrued interest and other charges were also recovered. On a cash basis this recovery therefore is more than 100% of the principal outstanding on these loans as on October 2018.

IFIN has been focused on the recovery from its external portfolio through a mix of legal recourses as well as settlements and security enforcements. Currently, there are 90 ongoing legal cases for recovery with respect to its external portfolio.

Details of Bids:-

The representative of the Resolution Advisor apprised the COC that Sale Process for the NPA Sale Portfolio for 69 identified NPA loan accounts was launched on November 9, 2020 (“First Public Sale Process”). Advertisements published in the Economic Times and Maharashtra Times, interest was received from 27 applicants of whom, 25 were deemed eligible and were given access to the VDR. Subsequently, on the bid due date of March 19, 2021, 2 binding bids were received from Bain Capital and Asset Reconstruction Company (India) Limited (“ARCIL”). The bids were of Rs. 235 Crores and Rs. 225 Crores respectively against the average Fair Market Value (FMV) of Rs. 2,380 Crores and Average Liquidation Value (LV) of Rs. 2,006 Crores.

He informed that since the H1 bid value was significantly lower than the average FMV and average LV as well as IFIN’s own internal estimates of potential cash recoveries from the NPA Sale Portfolio, it was decided by IFIN to terminate the first NPA portfolio sale process on May 10, 2021.

In June 2021, an unsolicited bid was received from ARCIL improving upon their previous bid of Rs. 225 Crores. In order to allow ARCIL to assimilate the recent developments in the NPA Sale Portfolio and procure a formal bid, a revised process was launched. 7 loan accounts that were part of the NPA Sale Portfolio during the First Public Sale Process were excluded as settlement proposals were in sight.

The first phase of the revised Swiss auction process consisted of soliciting a formal binding bid from ARCIL (“Initial Bidder”) and was launched on July 16, 2021. The same date was used as the cut-off date and a binding bid was received on July 30, 2021. The bid received was conditional and after negotiations over certain terms and subsequent to the conclusion of the curing requirements, ARCIL submitted a technically qualified binding bid on September 14, 2021.

The COC was apprised that coupled with the revised bid from the Initial Bidder of Rs. 255 Crores for the 62 NPA accounts included in the Second Public Sale Process and the settlement proposals received by IFIN for the excluded 7 accounts amounting to ~Rs. 280 Crores and the cash received by IFIN between January 25, 2021 and July 16, 2021 amounting to ~Rs. 27 Crores, the potential realization by IFIN for the NPA Portfolio of 69 accounts would amount to ~Rs. 562 Crores in comparison to the H1 Bid of Rs. 235 Crores received for the 69 accounts during the First Public Sale Process.

Particulars	Rs. In Crores
OTS proposals received by IFIN for excluded 7 accounts	280
Cash received by IFIN between 25 th Jan and 16 th July 2021	27
Realizable amount by IFIN for the 7 excluded loan accounts and cash received in other accounts (A)	307
Current Bid by ARCIL for the sale portfolio of 62 loans accounts (B)	255
Potential realization by IFIN for the entire NPA portfolio of 69 accounts = (A) + (B)	562

CoC Was apprised that formal approval was received from the New Board to launch a public process of September 18, 2021 and on September 27, 2021, the Swiss challenge process under the Second Public Sale Process was commenced through advertisements in the Economic Times and Maharashtra Times. Preliminary interest was received from 13 applicants of whom, 9 decided to proceed forward and were given access to the VDR. Subsequently, on the bid due date of October 19, 2021, a single binding bid of Rs. 370 Crores was received from UV Asset Reconstruction Company Limited (“UVARCL” or “H1 Bidder”). A comparative analysis of the bids from both the processes as shown to the COC Members have been depicted below:-

(Rs. In Crores)

Benchmark	Adjusted H1 Bid from Previous sale Process	Swiss Challenge Process		Valuer's estimate	
		Initial bid	Challenger's bid (UVARCL)	Average FMV	Average LV
Value	158	255	370	1933	1586
Asset	Portfolio of 62 NPA Loan Accounts				
Total Principal O/s (16/07/21)	Rs. 4,297 Crores				

Major sectors to which these 62 accounts belong to are real estate and infrastructure sectors. The table below outlines the overall split of the NPA Sale Portfolio consisting of 62 accounts. 18 accounts from the Real Estate sector contribute to ~32% of the NPA Sale Portfolio. Infrastructure related sectors such as cement, power and ports form ~21%, ~12% and ~9% of the NPA Sale Portfolio respectively.

Sector	No of Accounts	Principal O/s as on 16.07.2021 (Rs. In Crores)
Real Estate	18	1,367
Cement	4	921
Power	11	510
Ports	1	370
Tourism Infra	1	249
Retail	1	247
Waste Management	3	201
Contracting	3	144
NBFC	3	73
Sugar	2	62
Logistic	1	38
Telecom	1	31
Shipping	3	31
Trading	1	22
Miscellaneous	2	16
Textiles	5	13
Roads	1	3
Consumer Products	1	1
Total	62	4,297

The COC was apprised that as on the cut-off date of July 16, 2021, the bid value received from UVARCL compared favorably with the estimated recoveries of IFIN team from the NPA Sale Portfolio till FY22 envisaged through various modes of legal recourse, settlements, etc. . Subsequently, post the extension of Right to Match to the Initial bidder ARCIL, ARCIL did not match the Swiss Challenger's bid. Thus, UVARCL emerged as the H1 Bidder with the highest bid.

The COC was apprised that as against the bid value of Rs. 235 crores for the 69 NPA accounts from the first public sale process, IFIN is in the process of achieving an increased recovery of Rs. 677 crores based on the substantially higher bid value from UVARCL and the settlements being achieved by IFIN during the interim period. It was further highlighted that this recovery of Rs. 677 Cr against the NPA Portfolio is an improvement on the recovery of Rs. 562 Cr mentioned earlier considering the Initial Bid.

Particulars	Rs. In Crores
OTS proposals received by IFIN for excluded 7 accounts	280
Cash received by IFIN between 25 th Jan and 16 th July 2021	27
Realizable amount by IFIN for the 7 excluded loan accounts and cash received in other accounts (A)	307
Current Bid by UVARCL for the sale portfolio of 62 loans accounts (B)	370
Potential realization by IFIN for the entire NPA portfolio of 69 accounts = (A) + (B)	677

With regards to the overall timeline of resolution for the identified external NPA portfolio, the COC was apprised that under the portfolio sale route, the transaction would close in a period of 3-6 months depending on the various approvals sought. However, in the case that IFIN continues to resolve the portfolio, even with the timely resolution of select accounts, IFIN would be saddled with over 60 accounts of the portfolio with no buyers and IFIN would continue to incur significant legal and administrative costs to pursue their recovery efforts.

The representative of the Resolution Advisor then highlighted the impact of cost and administrative challenges under the two routes identified to resolve the external NPA portfolio. Under the portfolio sale route, all the costs to be incurred post-issuance of Letter of Intent (“LoI”) to the H1 Bidder would be borne by H1 Bidder. Additionally, given that the key employees of IFIN have been exiting, future challenges of managing the portfolio would be avoided under this route and IFIN can significantly reduce operational expenses, including legal costs, once the portfolio is transferred to the bidder.

On the contrary, in the case that IFIN continues to resolve the portfolio on its own, IFIN would continue to incur significant recovery costs, including legal expenses associated with facilitating these recoveries. Additionally, employee expenses would increase given the requirement of key professionals to drive resolutions for this NPA portfolio. Basis the above considerations and assessments of the options, it was recommended by the ASC and the IL&FS Board to proceed with the sale of H1 bidder under a transparent public sale process as opposed to account-wise resolution of the identified external NPA portfolio.

Any distribution would be as per the “Revised Distribution Framework” approved by the Hon’ble NCLAT vide order dated March 12, 2020, which states that subsequent to payment of resolution process costs in priority, the proceeds up to an amount equal to the average liquidation value of IFIN will be distributed in accordance with the priority as set out Section 53 of the Insolvency and Bankruptcy Code, 2016 (“IBC”). The remaining distributable amount (over and above the average liquidation value) would be distributed pro-rata based on balance outstanding to each class of creditors.

With respect to the group loans and investments, recoveries are ongoing basis the individual resolution processes being followed for these assets in line “Asset Level Resolution” strategy envisaged as per the resolution framework approved by the National Company Law Appellate Tribunal, New Delhi. Most of these resolutions are now at advanced stages and upon completion and closure of these processes, the recoveries against loans and investments in group companies would begin to improve. The overall recovery against the overall outstanding of Rs. 18,641 Cr is currently estimated to be between Rs. 5,000 Crores and Rs. 5,500 Crores by Q1 FY 22-23 and would be in the form of both cash and InvIT units. Some additional recoveries from real estate assets, external minority investments, tax refunds, etc are expected to take much longer.

Post conclusion of the NPA Portfolio Sale, the overall external loan book of Rs.5,959 Crores would stand resolved. Against the external investments portion which predominantly is attributable to certain real estate investments having a book value of Rs. 3,452 Crores as on October 2018, Rs 401 Crores have been recovered and some further recoveries are anticipated.

As highlighted earlier, with respect to the group loans and investments, recoveries are ongoing basis the individual resolution processes being followed and most of these processes are now at advanced stages. It is envisaged that majority of the recoveries pertaining to group entities would be completed by March 2022. An example of one such group resolution pertains to ONGC Tripura Power Company Limited (“OTPC”) for which the first COC of IFIN was held. The OTPC transaction is currently in the closing stages and inflows amounting to Rs. 170 Crores are expected to come into accounts of IFIN in the coming few weeks.

Valuation made by 2 independent Valuers:-

(₹ in crore)

Particulars	Adroit	RNC
Fair Market Value	1700	3061
Liquidation Value	1586	2423
Land Valuation	<ul style="list-style-type: none"> • Market Comparable approach • Transferable Development Rights (FSI Valuation) 	<ul style="list-style-type: none"> • Market Comparable approach • Transferable Development Rights (FSI Valuation)
Building Valuation	<ul style="list-style-type: none"> • Market Comparable approach • Replacement cost (Cost of New building) • FSI Value Method 	<ul style="list-style-type: none"> • Market Comparable approach • Replacement cost (Cost of New building) • FSI Value Method
Plant & Machinery Valuation	<ul style="list-style-type: none"> • Scrap value of material on site 	<ul style="list-style-type: none"> • Depreciated replacement cost method from financial statements
CG Valuation	<ul style="list-style-type: none"> • No Valuation considered 	<ul style="list-style-type: none"> • Based on adjusted net worth (book value of equity contingent liabilities) from latest available financial statements PG Valuation
PG Valuation		<ul style="list-style-type: none"> • No valuation considered
Share pledge valuation	<ul style="list-style-type: none"> • Based on adjusted net worth (book value of equity contingent liabilities) from latest available financial statements 	<ul style="list-style-type: none"> • Based on adjusted net worth (book value of equity contingent liabilities) from latest available financial statements

Valuation exercise may not have factored in the various legal challenges, practical challenges faced in taking possession and marketability of security as well as the time value of recoveries pertaining to the portfolio which lead to significantly higher average FMV and average LV.

Brief description about bidder UVARCL:-

UV Asset Reconstruction Company Limited (UVARCL) is registered as the 14th ARC out of 29 operating ARCs in India. UVARCL is engaged in the business of acquiring non performing financial assets from banks and financial institutions and unlocks the value of such stressed assets by adopting effective means of resolution.

UVARCL also has equity participation from major public sector banks, insurance companies and other corporate bodies viz. UVARCL has been in operation for over a decade. It has an AUM of Rs 1011 crore as on 31st March 2021. UVARCL has a successful track record in resolution of the stressed assets.

Consideration for Sale Asset Book (in INR): Rs.370 Crores

(Rs. In Crores)

Sr. No.	Sources of Infusion of Funds	Nature of Entity	Amount
1	Dalmiya	Trust	200
2	Suruchi Foods Pvt Ltd	Pvt. Ltd. Company	75
3	Hallow Securities Private Limited	NBFC	100
4	Vrindavan Finvest Pvt Ltd	NBFC	75

Resolution:-

Vide the judgment passed by the Hon'ble NCLAT on March 12, 2020, the Hon'ble NCLAT has approved the procedure being followed by the Union of India/ IL&FS in respect of the IL&FS Group (as set out in the affidavits dated January 25, 2019, January 9, 2020 and February 7, 2020, each filed by the Union of India with the Hon'ble NCLAT), including the Revised Distribution Framework stipulated in the affidavits dated January 9, 2020 and February 7, 2020.

Accordingly, in the 2nd COC meeting of IFIN Creditors held on 13.12.2021, the above matter i.e., sale of IFIN's Non-Performing Asset Portfolio (NPA Sale Portfolio) for a consideration of ₹370.00 crore was presented by the IFIN New Management, Alvarez & Marshal India Pvt Ltd (Resolution Advisor) and Arpwood Capital (Transaction Advisor) before the Committee of Creditors and requested the members to approve the proposal through e-voting. Our share in the COC is 34.38% as per the admitted claim statement of the company.