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REVIVAL AND RESILIENCE: "ANALYZING ESSAR STEEL'S FINANCIAL PERFORMANCE POST CORPORATE INSOLVENCY RESOLUTION PROCESS"

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Abstract

The corporate insolvency resolution process (CIRP) in India has witnessed significant transformations in recent years, with Essar Steel emerging as a prominent case study. This research paper endeavors to comprehensively analyze the financial performance of Essar Steel after undergoing the CIRP. The objective is to gauge the effectiveness of the resolution process in revitalizing a distressed steel manufacturer and its implications for the broader industry.

Essar Steel's journey through the CIRP is a compelling narrative of revival and resilience. The research employs a robust empirical analysis of key financial indicators, including profitability and liquidity to assess the company's post-resolution recovery. In doing so, it elucidates the tangible impacts of the insolvency resolution process on the company's financial health.

The findings of this study have broader implications for the understanding of CIRPs in India and their role in restructuring and rejuvenating distressed industries. By shedding light on the specific case of Essar Steel, this research contributes to the evolving discourse on corporate insolvency and its implications for stakeholders, including creditors, investors, employees, and the government.

The results of this analysis will be of interest not only to academics and researchers but also to policymakers, investors, and industry professionals seeking to gain a deeper understanding of the dynamics of corporate insolvency resolution processes in India.

Keywords: *Essar Steel, CIRP, NCLT, Resolution*

1.1 INTRODUCTION

Essar Steel India Limited (ESIL), a key figure in the Indian steel industry, is an integrated steel producer that manages the full spectrum of production from extracting iron ore to delivering finished steel products. Established by the Ruia/Essar group and boasting a substantial production capacity of 10 million tonnes per annum (MTPA), ESIL stands among the top four steel producers in India. It holds the title of being the largest integrated steel manufacturer in the Western region of the country.

Essar Steel boasts a varied array of steel products, encompassing hot and cold rolled steel, galvanized and color-coated coils, plates, pipes, among others. As a major exporter of flat steel products, the company has established a robust foothold in challenging markets such as the United States and Europe, while also expanding its reach in the burgeoning markets of South East Asia and the Middle East.

Garnered with multiple quality accreditations, Essar Steel maintains a highly efficient workforce, allowing the company to attain some of the industry's peak productivity levels while concurrently maintaining some of the lowest manpower costs on a global scale in steel manufacturing.

1.2 OBJECTIVES OF STUDY

a) To study the CIRP of Essar Steel Ltd

b) To make a comparative analysis of Essar Steel's financial performance before and after the corporate insolvency resolution process, highlighting the changes and improvements.

c) To draw lessons and insights from Essar Steel's experience, offering recommendations for other distressed companies and stakeholders in similar situations.

1.3 REVIEW OF LITERATURE

Satish Kumar Gupta, (2021) in his study ***"Performance analysis of M/s Essar Steel India Limited"*** extensively examined the company's condition both before and after undergoing the resolution process. Furthermore, the study delved into the obstacles and difficulties encountered during the Corporate Insolvency Resolution Process (CIRP) and elucidated the proactive measures taken by the company to recover from the crisis situation.
Dr. M.S Sahoo, Chairman, IBBI observed that "The IBC bifurcates the interests of the company from its promoters with a primary focus to ensure revival and it provides a competitive, transparent market process, which identifies the person who is best placed to rescue the company and selects the resolution plan which is the most sustainable under the circumstances. The process puts the company in the hands of a credible and capable management". (IBBI Newsletter for quarter ended December 2019)

1.4 RESEARCH METHODOLOGY

For the purpose of study, mainly literature review and secondary data has been used. The required secondary data was collected from the official website of the companies, Insolvency and Bankruptcy Board of India, Ministry of Corporate Affairs etc., various journals and research papers, diagnostic study reports and newspaper articles have been used in making this study.

1.5 HYPOTHESES OF STUDY

a) Liquidity Ratio:
H_0- The Company shows no improvement in their liquidity position after the resolution process
H_1- The Company shows improvement in their liquidity position after the resolution process
b) Profitability Ratio:
H_0- The Company shows no improvement in their profitability position after the resolution process
H_1- The Company shows improvement in their profitability position after the resolution process.

1.6 SCOPE OF STUDY

a) The study is restricted only for 6 years period from 2016-17 to 2021-22
b) Financial Performance of the company is evaluated with respect to their Liquidity and Profitability position.

1.7 Corporate Insolvency Resolution Process (CIRP) of Essar Steel:
On August 2, 2017, Essar Steel found itself subject to insolvency proceedings following an order issued by the National Company Law Tribunal, Ahmedabad Bench (NCLT). in response to an application filed by both Standard Chartered Bank and the State Bank of India.
In an order dated July 4, 2019, known as the "NCLAT Order," the National Company Law Appellate Tribunal (NCLAT) took several significant actions. Firstly, it approved ArcelorMittal's resolution plan. Secondly, it altered the distribution of funds in a way that treated all creditors, whether they were secured, unsecured, or operational, equally. This adjustment resulted in approximately 60.7% recovery for all creditors.
ArcelorMittal's resolution plan allowed the Committee of Creditors (CoC) to have discretion in determining the distribution of funds among secured financial creditors. The plan itself included an upfront payment of INR 42,000 crore and an equity infusion of INR 8,000 crore.
Nevertheless, the financial creditors retained the right to enforce corporate or personal guarantees against the former promoter group.
On December 15, 2019, AMNS India, a joint venture comprising ArcelorMittal (holding a 60% stake) – the largest steelmaker in the world – and Japan's Nippon Steel Corporation (with a 40% stake), finalized the acquisition of ESIL. This was achieved by a payment of Rs 42,785 crore, culminating a process that spanned over 800 days since the initiation of insolvency proceedings. Furthermore, AMNS India pledged an additional investment of around Rs 18,000 crore into ESIL, earmarked for enhancing operations and facilitating its turnaround, including capital expenditures. In this new structure, Mr. Aditya Mittal, the President and CFO of ArcelorMittal, assumed the role of Chairman of AMNS India, while Mr. Dilip Oommen, former MD and Deputy CEO of ESIL, was appointed as its new CEO.

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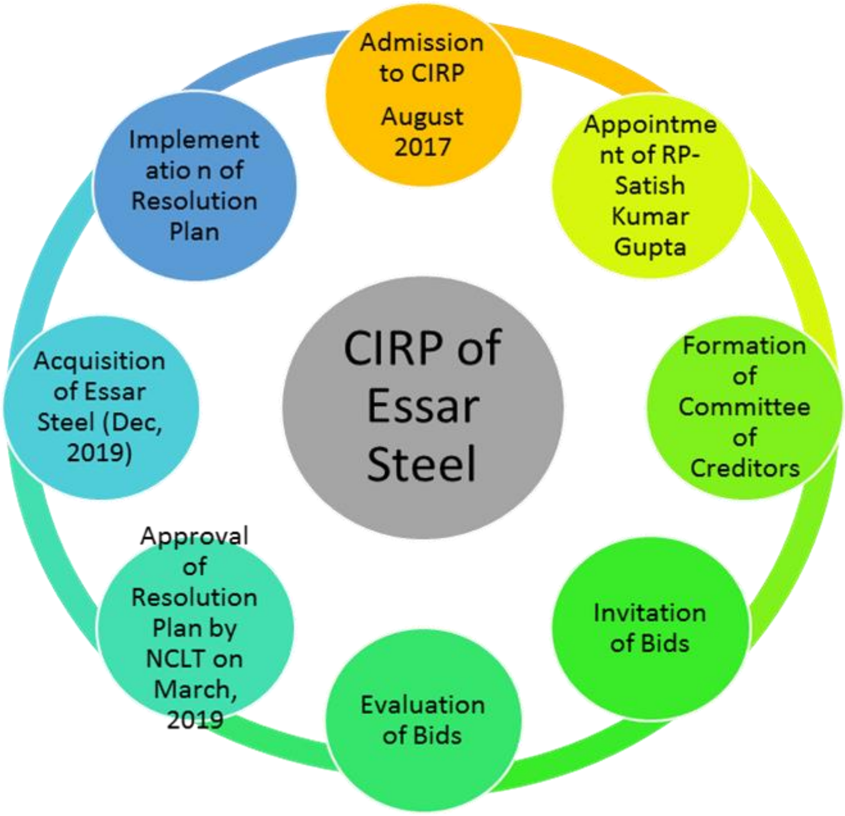

Source: www.money control.com

1.8 Data Analysis and Interpretation:

- **Analysis of Liquidity Ratio:**

A liquidity ratio assesses a company's capacity to settle short-term obligations. The two most prevalent indicators of a company's liquidity status are the Quick Ratio, often referred to as the Acid-Test Ratio, and the Current Ratio. These ratios ascertain whether the company possesses sufficient assets to meet its financial obligations as they become due. The Quick Ratio focuses on a company's capability to fulfill short-term debts using its most readily convertible assets, while the Current Ratio evaluates the company's capacity to cover short-term debts with its existing assets.

The Current ratio and Liquid Ratio of the company for the pre resolution period (2016-17 to 2018-19) and post resolution period year (2019-20 to 2021-22) are as follows:

Table no 1 Current Ratio and Quick Ratio during pre and post resolution process

Pre Resolution Process			Post Resolution Process		
Year	**Current Ratio**	**Quick Ratio**	**Year**	**Current Ratio**	**Quick Ratio**
2016-17	0.19	0.13	2019-20	2.46	1.64
2017-18	0.11	0.06	2020-21	2.71	1.9
2018-19	0.13	0.06	2021-22	4.44	3.48

Source: Data compiled from Annual Report (2016-17 to 2021-22)

The above data reflects that the company had a consistently low liquidity position during pre-resolution period, with both current and quick ratios significantly below 1. This suggests potential difficulties in meeting short-term obligations. There is a substantial improvement in liquidity post-resolution. The current and quick ratios have increased significantly, indicating a healthier financial position.

In order to test the difference in the ratio between the pre resolution process and post resolution process, the paired sample T- test was conducted, following is the result of the test:

Paired Sample Statistics:

Variable	Group	Mean	N	Std. Deviation	Std Error Mean
Current Ratio	Pre resolution	0.1433	3	0.0416	0.0240
	Post Resolution	3.2033	3	1.0783	0.6225
Quick Ratio	Pre resolution	0.0833	3	0.0404	0.0233
	Post Resolution	2.3400	3	0.9958	0.5749

Paired Sample Test

	Mean difference	Std Error of difference	95% confidence interval of difference		t	df	P value (2 tailed)
			Lower	Upper			
Current Ratio	-3.0600	0.632	-5.7802	-0.3398	-4.9118	2	0.03881
Quick Ratio	-2.2567	0.589	-47927	0.2794	3.8286	2	0.0428

Based on the above analysis, p-value of both Current ratio and Quick Ratio is less than 0.05. Hence we reject the null hypothesis which indicates that there is significant evidence of a difference in Current Ratio and Quick between the pre resolution and post resolution period.

- **Analysis of Profitability Ratio:**

Analyzing profitability ratios is crucial for assessing a company's financial health. It provides insights into its ability to generate profit from operations, indicating efficiency and sustainability. Investors use these ratios to make informed decisions, while companies utilize them to refine strategies and enhance overall financial performance.

Table no 3 Net Profit Ratio, Return on Capital Employed and Return on Proprietor's Fund during Pre resolution and post resolution process

Pre Resolution Process				Post Resolution Process			
Year	**Net Profit Ratio**	**Return on Capital Employed**	**Earnings per share**	**Year**	**Net Profit Ratio**	**Return on Capital Employed**	**Earnings per share**
2016-17	(31.30)	(2.36)	(16.72)	2019-20	53.26	30.77	(46.03)
2017-18	(48.40)	(9.88)	(54.17)	2020-21	5.03	8.89	2.03
2018-19	(25.19)	(0.02)	(25.13)	2021-22	16.37	14.99	8.61

Source: Data compiled from Annual Report (2016-17 to 2021-22)

The negative values indicate that the company incurred losses during these years, with 2017-18 experiencing the highest loss. All three years show negative or very low ROCE, indicating inefficiency in utilizing capital to generate profits. The negative value in 2016-17 is unusual and indicates a substantial loss relative to the proprietors' fund. During post resolution period, the company has moved to positive Net Profit Ratios, indicating profitability in the post-resolution period. The ROCE has improved significantly, showing better efficiency in utilizing capital to generate returns. The negative value in 2019-20 is again unusual, but subsequent years show positive returns on proprietors' fund.

In order to test the difference in the ratio between the pre resolution process and post resolution process, the paired sample T- test was conducted; following is the result of the test:

Paired Sample Statistics:

Variable	Group	Mean	N	Std. Deviation	Std Error Mean
Net Profit Ratio	Pre resolution	-34.9633	3	12.0308	6.946
	Post Resolution	24.8867	3	25.2177	14.559
Return on Capital Employed	Pre resolution	-4.0867	3	5.1518	2.9744
	Post Resolution	18.2167	3	11.2912	6.5190
Earnings per share	Pre resolution	-32.0067	3	19.6492	11.3445
	Post Resolution	-11.7967	3	29.8289	17.2217

Paired Sample Test

	Mean difference	Std Error of difference	95% confidence interval of difference		t	df	P value (2 tailed)
			Lower	Upper			
Net Profit Ratio	-59.85	12.821	-115.01	-4.6841	4.668	2	0.04296
Return on Capital Employed	-22.30	5.521	-46.05	1.4519	4.039	2	0.056
Earnings per share	-20.21	25.595	-130.33	89.9156	0.7896	2	0.5125

In the light of above analysis, it can be said that there is significant difference in the Net Profit ratio between pre and post resolution period but there is no significant difference in Return on Capital employed and Earning per share ratio between the pre and post resolution period. Hence we fail to reject the null hypothesis.

1.9 FINDINGS

Essar Steel is actively pursuing capacity expansion by finalizing ongoing projects such as the second Pellet Plant in Odisha, the third Continuous Strip Production plant, and a Coke Oven at Hazira. There is a focus on import substitution by increasing the production of high-end, value-added steel. Essar Steel is emphasizing the integration of innovation to boost efficiency and cut costs.

1.10 RECOMMENDATION

- The company need to continue the momentum of ongoing projects, ensuring timely completion and seamless integration into operations. This will contribute to increased production capacity, meeting market demands efficiently.
- They should leverage the focus on high-end, value-added steel production to capture market segments with premium products. Conduct market analysis to identify specific product demands and tailor production accordingly.
- Company must actively promote and support a culture of innovation within Essar Steel. Encourage employees at all levels to contribute ideas for process improvement, technological advancements, and cost-saving measures.
- They have to implement robust monitoring mechanisms to track the performance of completed projects, production efficiency, and innovation outcomes. Be agile in adapting strategies based on real-time feedback and market dynamics.

1.11 CONCLUSION

In summary, the Indian government's implementation of the Insolvency and Bankruptcy Code (IBC) has significantly streamlined the insolvency resolution process. By establishing a time-bound framework, it aims to minimize delays traditionally associated with insolvency cases. Furthermore, the introduction of the Insolvency and Bankruptcy Board of India (IBBI) marks a pivotal step in simplifying and regulating the insolvency process, thus enhancing the overall efficiency of the IBC. These reforms have been instrumental in the case of Essar Steels Limited, which, through the successful completion of the Corporate Insolvency Resolution Process (CIRP), not only regained its financial stability but also re-emerged as a key player in the steel sector. This turnaround has led to significant debt reduction for the company and has fostered the creation of numerous employment opportunities, showcasing the effectiveness of the reformed insolvency and bankruptcy framework.

1.12 SCOPE FOR FURTHER STUDY

The study conducted on Essar Steel's financial health focused primarily on assessing the company's liquidity and profitability ratios. This analytical approach offers a template that can be applied to other companies or across various industries. Additionally, the performance evaluation of a company can be expanded beyond just financial metrics. It can include an in-depth analysis of diverse parameters such as operational efficiency, managerial effectiveness, and technological advancements.

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