

Restructuring of debt: banks seek exemption from open offer under S4A

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Current regulations mandate an open offer once a buyer holds 25% of the acquired firm

Mumbai, November 8:

The feasibility of granting banks exemption from making an open offer when they convert borrowers' debt into equity, as well as allowing them more time for converting optionally convertible debentures into equity, are being actively examined by the banking and market regulators.

This is aimed at nursing troubled assets back to health under the scheme for sustainable structuring of stressed assets (S4A).

While in the case of listed companies, the acquiring lender – on account of conversion of debt into equity under the Strategic Debt Restructuring (SDR) mechanism – has been exempted from the obligation to make an open offer, this key clause has not been incorporated under the S4A.

Now, banks want an exemption from making an open offer for additional shares of stressed listed companies over and above the equity they will acquire upon conversion of debt, as they neither want to stump up more cash nor want to control and run them, said a senior public sector bank official.

Under the Securities and Exchange Board of India regulations, one of the conditions that will trigger an open offer to acquire at least 26 per cent more of the voting capital of a target company, is when an acquirer intends to acquire shares, which along with his existing shareholding, would entitle him to exercise 25 per cent or more voting rights.

S4A envisages determination of the sustainable debt level for a stressed borrower, and bifurcation of the outstanding debt into sustainable debt (Part A) and equity/quasi-equity instruments (Part B), which are expected to provide upside to the lenders when the borrower turns around. With a view to ensuring more stake of promoters in reviving stressed accounts and provide banks with enhanced capabilities to initiate change of ownership in accounts which fail to achieve the projected viability milestones, the RBI has allowed banks, at their discretion, to undertake an SDR by converting loan dues to equity shares.

In cases where Part B (unsustainable) debt under S4A is converted into optionally convertible debentures (with a provision for the allotment of equity shares at a future date through conversion), banks want the time limitation of 18 months for conversion into equity to be relaxed.

Bankers reason that it could sometimes take longer than 18 months for an asset to get back on track and for cash flows to normalise. So, the relaxation in the time period will help them monetise their equity holdings at the right time.

A couple of days back, infrastructure major Hindustan Construction Company announced that it has become the first company to secure approval of the Overseeing Committee under the RBI's S4A scheme to restructure its funded debt amounting to Rs. 5,107 crore.

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