

## Study on Insolvency & Bankruptcy Code (IBC) in India : The Case of Amtek Auto

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### Abstract

This paper studies the Insolvency and Bankruptcy Code (IBC) in India by investigating the case of financial sickness of Amtek Auto and the application of IBC thereof at Amtek Auto. After providing a brief overview of India's various insolvency resolution frameworks, we discuss the case by scrolling through the sequence of events during the IBC proceedings against Amtek Auto. The audited balance sheets of the company were analyzed to understand the overall effect of various events on the company's financials. The paper adopts an event study approach to highlight the impact of contingent and emerging factors during the resolution process. This study indicates the need to consider contextual factors in the insolvency resolution process and how situations may not turn out to be as expected. It is thus important to acknowledge that each resolution case is different, and it is not possible to generalize the routines, procedures, and resolution plans.

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**JEL Code :** G28, K22, L51

**Keywords :** Insolvency, Bankruptcy, IBC, Amtek Auto, India

### I. Introduction

AMTEK AUTO WAS among the first cases to be taken up at the newly provisioned Insolvency and Bankruptcy Code (IBC) in India. By an event study approach of the case of Amtek Auto, we have explored the IBC implementation in India in this paper. We investigate the reasons for Amtek Auto Limited's financial sickness, a public company that is one of the largest integrated automotive component manufacturers in India. Over the previous few years, the financial sickness of the company has caused the company's account with its lenders to slip into the non-performing asset (NPA) category.

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**Annexure**  
**Annexure I**  
**Balance Sheet of Amtek Auto (INR million)**

	Mar 17 12 mths	Mar-16 6 mths	Sep-15 12 mths	Sep-14 12 mths	Sep-13 15 mths
<b>EQUITIES &amp; LIABILITIES</b>					
<b>SHAREHOLDER'S FUNDS</b>					
Equity Share Capital	496.5	449.5	449.5	440.6	437.2
Total Share Capital	496.5	449.5	449.5	440.6	437.2
Reserves and Surplus	30266.9	43829.1	50437.5	50895.2	47541.2
Total Reserves and Surplus	30266.9	43829.1	50437.5	50895.2	47541.2
Total Shareholders Funds	30763.4	44278.6	50887	51335.9	47978.4
<b>NON-CURRENT LIABILITIES</b>					
Long Term Borrowings	0	56650.4	60322.4	52166.4	53361.2
Deferred Tax Liabilities [Net]	0	1815.2	4550.2	5288.7	3801.9
Other Long Term Liabilities	4927.8	3715	1225	0	0
Long Term Provisions	411.7	173.1	184.2	139.4	93.8
Total Non-Current Liabilities	5339.5	62353.6	66281.8	57594.4	57257
<b>CURRENT LIABILITIES</b>					
Short Term Borrowings	27873.10	23721.00	20832.40	11529.00	6960.50
Trade Payables	2138.90	2001.60	1015.70	1617.00	1309.80
Other Current Liabilities	89600.40	26333.90	22673.30	16312.70	8227.20
Short Term Provisions	13.00	19.30	10.30	143.50	129.30
Total Current Liabilities	119625.30	52075.80	44531.80	29602.20	16626.80
Total Capital And Liabilities	155728.20	158708.00	161700.60	138532.40	121862.20
<b>ASSETS</b>					
<b>NON-CURRENT ASSETS</b>					
Tangible Assets	87979.20	89183.60	90055.50	76705.10	61690.50
Capital Work-In-Progress	11017.00	6612.70	8375.60	5954.90	10033.90
Fixed Assets	98996.20	95796.30	98431.20	82660.00	71724.40
Non-Current Investments	17456.00	16665.10	17299.80	16655.70	17594.80
Deferred Tax Assets [Net]	3885.50	0.00	0.00	0.00	0.00
Long Term Loans And Advances	0.00	17180.00	15283.70	14833.50	10361.20
Other Non-Current Assets	16964.20	0.00	0.00	0.00	0.00
Total Non-Current Assets	137301.90	129641.40	131014.70	114149.20	99680.40
<b>CURRENT ASSETS</b>					
Current Investments	28.00	180.60	283.40	221.40	512.70
Inventories	8532.10	15996.90	16060.70	10571.90	7036.30
Trade Receivables	3976.40	8536.50	9045.00	8756.40	6294.00
Cash And Cash Equivalents	382.10	656.30	781.20	2232.90	6424.50
Short Term Loans And Advances	0.00	3696.20	4505.50	2593.80	1896.50
Other Current Assets	5507.60	0.00	10.20	6.70	17.90
Total Current Assets	18426.30	29066.60	30685.90	24383.30	22181.90
Total Assets	155728.20	158708.00	161700.60	138532.40	121862.20

Source: Moneycontrol (March, 2019)

**Anexure II**  
**Profit and Loss Statement (INR million)**

	Mar 17 12 mths	Mar-16 6 mths	Sep-15 12 mths	Sep-14 12 mths	Sep-13 15 mths
<b>INCOME</b>					
Revenue From Operations [Gross]	19261.80	14846.60	37408.20	39506.80	30193.80
Revenue From Operations [Net]	19261.80	14846.60	37408.20	39506.80	30193.80
Other Operating Revenues	237.10	0.00	0.00	0.00	0.00
Total Operating Revenues	19498.90	14846.60	37408.20	39506.80	30193.80
Other Income	325.70	270.20	329.60	490.20	1066.00
Total Revenue	19824.60	15116.80	37737.80	39997.00	31259.80
<b>EXPENSES</b>					
Cost Of Materials Consumed	14316.70	10462.60	29618.60	23682.30	18927.70
Operating And Direct Expenses	1118.40	819.90	1704.70	1636.40	1239.60

(Contd....)

**Annexure 2 (Continued)**

Changes In Inventories Of FG,WIP And Stock-In Trade	-1929.00	-405.40	-5838.70	-330.80	-317.90
Employee Benefit Expenses	1297.80	633.00	1382.60	1468.00	1166.10
Finance Costs	13667.50	5346.10	7745.40	4291.10	2753.20
Depreciation & Amortisation Exp.	5687.60	2940.30	5251.40	3290.30	2837.40
Other Expenses	1063.00	632.20	1314.10	1239.40	835.20
Total Expenses	35222.00	20428.60	41178.00	35276.70	27441.20
Profit/Loss After Tax And Before ExtraOrdinary Items	-15397.40	-5311.80	-3440.20	4720.30	3818.60
Exceptional Items	-7037.80	-4139.90	1568.00	0.00	1898.50
<b>Profit/Loss Before Tax</b>	<b>-22435.20</b>	<b>-9451.70</b>	<b>-1872.20</b>	<b>4720.30</b>	<b>5717.10</b>
<b>Tax Expenses-Continued Operations</b>					
Current Tax	0.00	0.00	0.00	977.90	1209.90
Less: MAT Credit Entitlement	0.00	0.00	0.00	977.90	0.00
Deferred Tax	-6195.30	-2735.00	-716.30	1486.70	0.00
Tax For Earlier Years	0.00	-108.30	0.00	0.00	0.00
Total Tax Expenses	-6195.30	-2843.30	-716.30	1486.70	1209.90
Profit/Loss After Tax And Before ExtraOrdinary Items	-16239.90	-6608.40	-1155.90	3233.60	4507.20
Profit/Loss From Continuing Operations	-16239.90	-6608.40	-1155.90	3233.60	4507.20
<b>Profit/Loss For The Period</b>	<b>-16239.90</b>	<b>-6608.40</b>	<b>-1155.90</b>	<b>3233.60</b>	<b>4507.20</b>

Source: Moneycontrol (March, 2019)

**Annexure III  
Financial ratios of the company**

Financial Ratios	Mar 17 12 mths	Mar-16 6 mths	Sep-15 12 mths	Sep-14 12 mths	Sep-13 15 mths
<b>Investment Valuation Ratios</b>					
Operating Profit Per Share (INR)	14.63	12.03	41.05	53.61	38.16
Net Operating Profit Per Share (INR)	78.54	66.06	166.44	179.32	138.11
<b>Profitability Ratios</b>					
Operating Profit Margin(%)	18.62	18.21	24.66	29.89	27.63
Profit Before Interest And Tax Margin(%)	-10.36	-1.56	10.53	21.3	17.61
Gross Profit Margin(%)	-10.54	-1.58	10.62	21.56	18.23
Cash Profit Margin(%)	-17.72	3.12	6.69	16.31	17.42
Net Profit Margin(%)	-83.28	-44.51	-3.08	8.18	14.92
Return On Capital Employed(%)	-2.95	0.02	3.26	7.83	6.06
Return On Net Worth(%)	-52.78	-14.92	-2.27	6.29	9.39
Return on Assets Excluding Revaluations	123.92	197.01	226.41	233.01	219.46
Return on Assets Including Revaluations	123.92	197.01	226.41	233.01	219.46
Return on Long Term Funds(%)	-5.62	0.03	3.87	8.7	6.48
<b>Liquidity And Solvency Ratios</b>					
Current Ratio	0.27	0.61	0.67	0.84	1.17
Quick Ratio	0.28	0.88	1	1.21	1.84
Debt Equity Ratio 0.91	1.82	1.59	1.24	1.26	
Long Term Debt Equity Ratio	—	1.28	1.19	1.02	1.11
<b>Debt Coverage Ratios</b>					
Interest Cover	-0.13	0.01	0.56	2.1	2.39
Total Debt to Owners Fund	0.91	1.82	1.59	1.24	1.26
Financial Charges Coverage Ratio	0.29	0.56	1.23	2.87	3.42
<b>Management Efficiency Ratios</b>					
Inventory Turnover Ratio	2.29	0.93	2.33	3.74	4.29
Debtors Turnover Ratio	3.12	1.69	4.2	5.25	4.98
Investments Turnover Ratio	2.29	0.93	2.33	3.74	4.29
Fixed Assets Turnover Ratio	0.19	0.13	0.34	0.43	0.41
Total Assets Turnover Ratio	0.33	0.13	0.28	0.34	0.28
Asset Turnover Ratio	0.21	0.12	0.3	0.35	0.32

Source: Moneycontrol (March, 2019)

**Annexure IV**  
**Amendments in the Insolvency and Bankruptcy Code 2016**

The IBC (Amendment) Act 2019 aimed to address the gaps in the IBC 2016 framework to improve its effectiveness and efficacy. Firstly, the time frame for resolution has been extended to 330 days instead of 270 days as previously required. This is in lieu of the extended litigation time in the cases, which inevitably necessitated a time extension by the competent authority, and such an extension was subject to discretion. As per the amendment, this defined resolution time frame of 330 days also includes the time for the process of litigation. If the resolution process is not completed within this time, the firm's assets would be liquidated. Secondly, the amendment lends authority to the Committee of Creditors (CoC) to decide the distribution of the claims from the proceedings of the process to the various types of creditors. Thirdly, the decision of the CoC on the resolution plan could be approved with the voting threshold of 50% from the previously required limit of 75%. Fourthly, home-buyers have been accorded the status of financial creditors in the case of real-estate projects. Fifthly, the NCLT benches are now required to furnish the reasons for the rejection of the application by financial creditors within fourteen days. In addition to these, the amendment also grants more flexibility to the applicants to incorporate certain corporate restructuring programs as a part of the resolution plan. The Insolvency and Bankruptcy Code (Amendment) Act, 2020 protects the successful bidders from any criminal proceedings initiated against them for the offenses of the previous promoters.