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PE funds stare at capital loss on stressed investee firms

Some have tried to put in claims as financial creditors; even these have seen only partial acceptance

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Even as vulture funds eye bargain buys from stressed assets on sale, a set of private equity (PE) funds are staring at capital losses and looking at ways to limit these, as their investee companies are dragged to the National Company Law Tribunal (NCLT) by lenders.

Among the 'Big 12' companies (unpaid loans so big that the Reserve Bank of India ordered banks to refer these to NCLT for insolvency resolution), PE giant Blackstone Group has exposure to Monnet Ispat. In 2011, the US-based fund had invested around $50 million (Rs 230 crore then) for a 7.12 per cent stake. It also had exposure to Monnet Power, a subsidiary. With lenders converting debt to equity, Blackstone's stake in Monnet is down to around 2.3 per cent.

Equity shareholders, being owners, come at the end of any payment in a liquidation. Lawyers say PE funds usually have clauses giving them priority over promoters. There is possibility of litigation if these agreements are not honoured, a lawyer handling one such case said. However, it is not clear how much they would be able to recover in cases where even the lenders are looking at large haircuts (write-offs).

Some funds, which had taken exposure through other instruments, have filed claims as financial creditors. According to a filing by Carnation Auto India, three investors — IFCI Ventures Capital, Gaja Capital and Hasham Investment — have filed claims as financial creditors. The venture, promoted by former Maruti Suzuki executive Jagdish Khattar, has been dragged to the NCLT by Punjab National Bank for dues of Rs 140 crore.

While the bank's claims have been fully admitted, the funds' claims have been admitted only partially. For example, Rs 28 crore of IFCI Ventures' Rs 91-crore claim has been admitted bute Hasham, investment vehicle of Wipro promoter Azim Premji, saw only a fraction (Rs 1.14 crore) of its Rs 287-crore claim admitted. A Rs 3.64 crore claim by Gaja was not admitted at all.

Lawyers advising PE funds said though these have been trying to claim as financial creditors by virtue of convertibles such as compulsorily convertible debentures, they run the risk of being asked to convert their holding into equity shares and join the line.

More companies with heavy PE exposure are in the line for insolvency processes in the months ahead. In the Reserve Bank of India's next list of 26 companies is Coastal Projects. Fidelity Ventures (9.14 per cent), Tunnel Holdings (11.79 per cent) and Sequoia Capital (8.53 per cent) are among the top shareholders of this Hyderabad-based company.

Vaibhav Parikh, partner, Nishith Desai Associates, said there could be several PE-backed companies now going through the insolvency process. "The funds might have put in claims since the provision is available. But, they are not the ones looking at cents to a dollar. They are risk takers who look at 2x, 3x, returns." Such losses are part of the game, he added.