

Bihar Caustic — A BIFR cash cow

Hemindra Hazari

A BIFR (Board for Industrial and Financial Reconstruction) case conjures nightmares of a company with an eroded equity, burdened with crippling debt and interest payments suffocating the last remnants of profits. The founding fathers of the Sick Industrial Companies (Special Provisions) Act, 1985 defined what is a sick company but did not suggest when the company will qualify as being healthy—like a priest consoling the dying. However, there are cases of companies returning from the abyss of debt and sickness but still being condemned for posterity.

In Bihar Caustic and Chemicals Ltd (BCCL) sixteenth annual report, for 1991-92 the auditors state, "The Company is a Sick Industrial Company within the meaning of Clause (O) of Sub-Section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985 and reference has been made to the (BIFR) under Section 15 of that Act and the Rehabilitation Scheme have been sanctioned by BIFR."

The Act defines a "sick industrial company" as "an industrial company (being a company registered for not less than seven years) which has at the end of any financial year accumulated losses in such financial year and the financial year immediately preceding such financial year."

BCCL has satisfied the first criteria by having a negative net worth but since 1989-90 the company has been generating cash profits and the definition of sickness implies that the company must have both criteria to be a sick industrial company.

A serious lacuna of the Act is that it does not provide for such recovery cases and yet the purpose of the Act is to identify sick units and revive them. While sickness is defined in accounting terms which has inherent problems, no attempt is made to define recovery.

The first symptom of corporate

sickness or recovery is the lack or surplus of operational liquidity conditions.

Unfortunately, most financial analysts and much of corporate literature emphasise profits, profit margins and interest cover and neglect liquidity analysis. Liquidity analysis is important because it shows whether the company has adequate liquidity to pay for its cash commitments

a healthy investment portfolio.

In 1989-90 total borrowing was Rs 30.29 crores which came down to Rs 28.42 crores in 1990-91 and further declined to Rs 26.85 crores in 1991-92.

In 1989-90 the company did not have any intercorporate investments while in 1990-91 and 1991-92 investment in intercorporate deposits was Rs 1.46 crores. In 1989-90 BCCL

tonnes per annum (tpa) of caustic soda. In 1989-90 BCCL had a capacity utilisation of 106 per cent which increased to 110 per cent in 1990-91 and further increased to 114 in 1991-92.

In 1989-90 caustic soda volumes sold was 34,838 tonnes which increased to 36,359 tonnes in 1990-91 and further increased to 37,375 tonnes in 1991-92. Power is a major cost in the alkali industry.

It is noteworthy that while the company still retains the older mercury process and tariff rates have increased from Rs 1.203 in 1989-90 to Rs 1.295 in 1991-92, power to sales declined from 51.3 per cent in 1989-90 to 43.7 per cent in 1991-92.

Alkali units are voracious consumers of power — a scarce and sporadic commodity in the Indian subcontinent. BCCL was driven to sickness because of erratic power supply from the Bihar Electricity Board. As a part of the rehabilitation scheme, the BIFR has sanctioned a 15 M.W. captive power plant which has received the final clearance of the Bihar government. Once the power plant becomes operational it will take care of the entire power requirements.

The first three months of 1992-93 have not augured well for BCCL.

Total production of caustic soda lye for April to June 1992 declined by 12 per cent and sales volumes fell by 9 per cent compared to the same period in 1991-92. However, caustic soda lye prices have increased by 31 per cent to Rs. 11,463m per tonne.

If this is any indication then the increase in turnover for 1992-93 will be mainly due to sales realisation.

BCCL for practical purposes is not a sick company as it has been generating cash profits for the last three years.

Therefore it is imperative that the Sick Industrial Companies (Special Provisions) Act be modified to define recovery, otherwise no company will ever emerge from the Black Hole of corporate 'sickness'. □

FINANCIAL HIGHLIGHTS

Rs. in Crores

	31/3/92	31/3/91	31/3/90
Equity	7.80	7.80	7.80
Free reserves	-12.06	-17.75	-21.08
Net worth	-4.26	-9.95	-13.28
Total borrowing	26.85	28.42	30.29
Gross block	31.96	29.99	28.59
Net sales	35.98	30.67	25.12
Other income	2.11	2.30	0.85
Total income	38.09	32.97	25.97
Operating profit	11.40	9.38	5.61
Interest	2.72	2.73	3.68
Gross profit	8.68	6.65	1.93
Depreciation	8.88	8.47	2.88
Tax	0.00	0.00	0.00
Net profit	-0.20	-1.82	-0.95
EPS (Rs)	-0.26	-2.33	-1.22
OPM(%)	31.68	30.58	22.33
GPM(%)	24.12	21.68	7.68
NPM(%)	-0.56	-5.93	-3.78
Power to sales (%)	43.70	45.60	51.30
Installed capacity (MT)	33000.00	33000.00	33000.00
Capacity utilisation (%)	114.00	110.00	106.00
Caustic soda sales volume (MT)	37375.00	36359.00	34838.00
(Rs./M.T.)	10621.00	9269.00	7869.00

made during the current accounting year and during the next financial year. If the company has a liquidity shortfall, then it has to increase its short term borrowing and or use its current cash flows to fulfill past cash commitments.

The Bihar Caustic & Chemicals Ltd is a classic case of a company recovering from sickness by generating surplus operational liquidity from which it has been able to reduce its debt and interest payments and finance

had UTI units worth Rs 3.06 crores which increased to Rs 6.2 crores in 1990-91.

While in 1991-92 BCCL had no UTI investments instead it invested in DVC Bonds worth Rs 5 crores and Cantriple units worth Rs 1.25 crores. These investments however have been sold since 31st March 1992. The increase in investments reflects the improvements in BCCL's operational cash generation.

BCCL for the last three years has a capacity to produce 33,000