Cabinet approves second financial restructuring of Konkan Railway Corporation Ltd.

Posted On: 15 DEC 2017 5:25PM by PIB Delhi

The Cabinet Committee on Economic Affairs chaired by the Prime Minister Shri Narendra Modi has approved the Second Financial Restructuring proposal of Konkan Railway Corporation Limited (KRCL), a CPSE under the administrative control of the Ministry of Railways (MoR).

The conversion of Non-Cumulative Redeemable Preference Shares (RPS), amounting to Rs. 4,079.51 crore, held by President of India through Ministry of Railways, into Compulsorily Convertible Non-Cumulative Preference Shares (CCPS), has been approved. This will shore up the net worth of the Company after implementation of the new accounting standard IND AS.

Implementation Strategy and targets:

KRCL will have to present the previous year's Balance Sheet figures restated as per IND-AS, as on 31st March 2016 and those at the opening of the business i.e., as on 1st April 2015. The conversion of the Non-cumulative Redeemable Preference Shares (RPS) into Compulsorily Convertible non-cumulative Preference Shares (CCPS) w.e.f. 31st March 2015 will make KRCL's net worth positive.

Major Impact:

1. Net worth of KRCL will remain positive.
2. A positive Net Worth for the KRCL is a sine qua non for the purpose of raising funds from the market at viable rate of interest, obtaining better credit rating from rating agency, qualify for bidding for new contracts and to take up various sanctioned projects on Konkan Railway route etc
3. KRCL will not be categorized as a Sick Company as per DPE guidelines.

Background:

As per notification from Ministry of Corporate Affairs (MCA) from the financial year 2016-17 onward, companies having net worth of Rs.500 crore or above as on 31st March, 2014, will have to adopt IND-AS (Indian Accounting Standards i.e. new Accounting Standards introduced on the basis of IFRS) in the preparation and compilation of Accounts. As per IND AS, the Non-Cumulative Redeemable Preference Shares are treated as "Compounded Financial Instruments" and disclosed in two components - other equity and financial liability. The liability component is equal to the present value of the redemption amount on the date of the issue, considering the discount rate at the date of the issue of the preference shares. The other equity represents the component equal to the total redeemable amount of the preference shares less liability component.

Thus, a part, of Non-Cumulative Redeemable Preference Share issued to President of India (through MoR) by KRCL will have to be shown as 'Outside Liability'1 instead of 'Equity Capital' in the Balance Sheet of KRCL and the Net Worth of KRCL will turn negative.

A negative net worth of KRCL will result in:

(i) poor credit rating of KRCL.

(ii) difficulty in raising funds from market by KRCL,

(iii) difficulty in bidding for new contracts by KRCL and

(iv) KRCL will be categorised as 'sick company' as per DPE guidelines.

In view of the above, KRCL had requested to convert the existing preference shares held in the name of President of India (through MoR) into Compulsorily Convertible non-cumulative Preference Shares (CCPS) w.e.f. 31st March 2015, as CCPS can be considered as share capital under IND AS.

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(Release ID: 1512791)