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Strategic Debt Restructuring at Gammon India Limited

Gammon India Limited, with a history of almost 100 years in the infrastructure sector, was facing rapid decline in the financial performance, especially after the global financial crisis of 2008. Though the total income was increasing, the other financial performance indicators were declining. The ratio of borrowed funds to equity increased at an alarming speed. The funds blocked in inventories and receivables also increased. The profitability declined over a period, but the decline in the net margin was sharper than the EBITDA margin due to increase in interest cost.

The decline in performance was due to external as well as internal factors. The company identified slowdown in the economy, particularly the infrastructure and construction industry, as the major reason. Gammon, because of a strong order book, could ward off the impact for some time but eventually started experiencing decline in the revenue and profit. At the same time, trade receivables increased significantly due to delay in release of payments by the clients. The resultant increase in working capital cycle resulted in severe cash crunch for the company.


Sanjay Dhamija

The investments made by Gammon in various subsidiaries and joint ventures also failed to yield the desired results due to global macro-economic slowdown. To fund the investments in the joint ventures and increased working capital requirements, the company resorted to increased borrowings. By 2013, it became clear to Gammon India management that they were facing a financial crunch due to the factors identified earlier. The company needed immediate support to sustain and expedite execution of various projects it had undertaken.

Ultimately, the management decided to refer to the Corporate Debt Restructuring (CDR) cell for the much-needed breather to streamline its operations and finance. Gammon was in the midst of a CDR exercise with the consortium of lender banks since 2013. For the revival of Gammon as well as for the safety of their own money, banks extended significant concessions to Gammon, however, the financial performance of the company failed to improve. The consortium of banks convened a meeting to discuss the possibility of converting their loans to equity in Gammon with management change, in pursuant of Strategic Debt Restructuring (SDR). The poor track record of CDR by the banks was also an important consideration. The consortium needed to balance the interest of all the stakeholders.

The consortium was to meet shortly to decide the course of action that would determine the future of the once iconic company. There was also a question as to what role the current management would be allowed to play to ensure that the progress of the ongoing projects was not adversely affected. Would it be advisable to give some more time to Gammon so that the results of the changes made in the last two years could be more visible?

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Execution & Performance of Strategic Alliances in Indian Software Industry

In the last few decades, alliance is one of the preferred strategies to compete in global environment, yet there are strong evidences, which show that alliance performance has remained weak.

Established in 1990, ABC is India's premier Enterprise Resource Planning (ERP) solutions provider for Indian businesses and the first Indian company to offer Application Service Provider (ASP) services through its ERP on-the-net offerings.


Prof. Sushil

ABC's top management believes that "while 'Customer is the King, Partner is the Queen'. If a company cannot pamper the partner like a queen, they will not be able to get customers in that region." The strategic alliances at ABC follow certain phases – Market Research, Partner Search, Partner Evaluation, Business Partnership Agreement, Alliance Implementation and Performance Evaluation.

ABC usually signs a standard partnership contract with all its partners with some minor tweaking to accommodate very specific concerns of the partner. However, the success rate of the alliances had a different story to tell, as many variables lead to success of an alliance and execution has an impact on the performance as well, as witnessed in the two alliances.

ABC used the same mechanism for Partner Selection in both the alliances and ensured that the partner had a good market knowledge, was a decent sized company having offices across the country so that it can leverage its network for better market access. The similarity between the two alliances ended there as most of the good points about ABC's alliance model were diluted in the second alliance leading to its failure.

ABC followed its standard Alliance Structure for the first alliance but the same was altered for the second alliance, which led to higher upfront expenses for ABC and no revenues from the additional business generated by the alliance. The Alliance Leadership was managed by the promoter of the business in the first case, which helped in Conflict Resolution, Inter-Partner Cooperation and Alliance Goal Congruence. However, in the second case the General Manager who neither understood the software business nor did any investment in knowledge transfer managed the alliance, which adversely affected the Inter-Partner Cooperation and Alliance Goal Congruence leading to failure of the alliance.

Should the main cause for the failure of the second alliance be attributed to the lack of organisational and technological compatibility between the two companies? Or was dilution in the Contractual Terms and the Safeguarding mechanisms used in the second alliance the reason?

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