

Case Study

A Sweden based personal hygiene products manufacturing Company

Service(s) offered: **Voluntary Liquidation of the Company**

Sector/Industry: **Personal Care, Professional Hygiene and Consumer Tissue**



Voluntary Liquidation of the Company

The Client

Headquartered in Sweden, the Group was engaged in manufacturing, marketing and distributing baby care and personal hygiene products.

Its Indian subsidiary (the Company) was incorporated in India in 2012 to manufacture, market and distribute baby care and personal hygiene products. The Company had set up a factory in the state of Maharashtra and various sales and warehouses across India, employing individuals on a permanent and contractual basis.

Context

The Group invested a significant amount of share capital in the Company. Unfortunately, the business development was less successful than initially anticipated. As a result, the decision to exit from India was taken, which envisaged realization of assets, separation of employees and discharging liabilities in India and subsequently liquidating the Company voluntarily. The liquidation of the Company contemplated huge capital loss to the Group. Meanwhile, due to an amendment in the law by Parliament where the Group was domiciled, the liquidation loss would have become no longer deductible if the liquidation process was not completed before 31 March 2020.

Nexdigm was approached to complete the liquidation process and dissolve the Company in the given timeframe.

Case Highlights

- Completion of liquidation process in a record time of 11 months amidst COVID-19 restrictions
- Dealing with various assessments across India with direct and indirect tax authorities and other regulatory issues
- Coordination amongst the liquidator and various stakeholders w.r.t. the claims received and its management
- Tactical decision making in order to close the various open issues which may hamper the overall outcome of the process
- Having regard to the regulatory framework, ensuring that the affairs of the Company are liquidated at the earliest possible and dissolution is applied before the Tribunal
- Resulted in a landmark (perhaps first ever) case where the Company was dissolved amidst pending litigations

Our Approach

Our approach to this project was based on project management's four pillars: Time, Cost, Quality, and Risk. The assignment's primary requirement was to assess the existing situation and build a roadmap for liquidation. A dedicated project team was assigned, which led the project, that involved complex regulatory involvement coupled with the practical challenge of a raging pandemic.

Owing to the sensitive timeline for the proposed liquidation, the project continued to be operational during the COVID-19 lock-down followed by restriction. The team ensured adherence to the timelines by closely coordinating with the liquidator and the stakeholders while working remotely.

Project Management Support

Nexdigm provided support across several phases of the project, from initiation to dissolution (and even post-dissolution). The team managed the project in the following areas:

Initial advisory

We advised an efficient way to discontinue business operations, dispose of a factory, and direct and indirect tax issues in relation thereto. The advisory also involved contemplating voluntary liquidation under the newly introduced Insolvency & Bankruptcy Code, 2016, in respect of which no precedents were available. The extensive deliberation and advice paved the way for proceeding under voluntary liquidation amidst pending litigation against the Company. The initial advisory helped the Group's management make an informed decision regarding the Company's voluntary liquidation.

Initiation of liquidation process

Our team extensively carried out pre-liquidation clean up of the Company's financial statements, advised directors and shareholders on solvency declaration, engaged a professional liquidator who understood the sensitiveness of the project and ensured that the liquidation was initiated in a timely manner. Throughout the liquidation, we managed various project activities and dealt with the critical issues arising during the process. Equally important was to keep close coordination between the liquidator and various stakeholders to ensure that at no stage

process goes out of track, while managing the concerns of every stakeholder.

Liquidation of affairs

Liquidation process broadly involved consent of shareholders, consent of creditors, appointment of a liquidator, notice of liquidation to public and statutory authorities, invitation of claims, preliminary reporting of affairs of the Company, maintaining of statutory books, verification of claims, satisfaction of claims, provisioning of claims, realization of assets, distribution of assets, audit of Liquidation account, preparing final report of liquidator and submitting the same with authorities, preparing and defending case for dissolution before the Tribunal.

Liquidation of affairs also involved accurate estimation of cash flow requirements throughout the process. The cash flow position aggregating to EUR 2 million was managed efficiently.

We extensively worked with the Company's existing consultant to ensure that they are also aligned to project sensitivity and timelines so as to support the liquidator to discharge his duties efficiently.

Regulatory issues

During the liquidation there arose various regulatory issues for which precedents were not available. Briefly, the issues involved the determination of claims of statutory authorities and making provisioning against the same. We used our tax practice's expertise to fast track open tax assessments, ensured closure of assessments in most cases, set-off of tax payables and secured refunds.

The process came across critical issues pertaining to foreign exchange management such as opening of the escrow account, management of the same to secure claims of statutory authorities, application for distribution of actionable claim to shareholders, certification on the determination of tax deductible on distribution of assets, infusion of funds during the liquidation and dissolution amidst pending litigations.

We also completed reporting part w.r.t. compliances, accounting and surrender of various licenses.

Time-bound liquidation process

The project was strictly time-bound due to impending changes in the law in the country where shareholders domiciled. The liquidation commenced in November 2019 but witnessed the unprecedented outbreak of the pandemic throughout 2020. Despite all odds, due to out of box approach, the project was successfully completed in all respect and as per the order of dissolution secured in December 2020. Thus, the liquidation of affairs of high magnitude was completed in less than a year's time, resulting in a landmark (perhaps first ever) case of dissolution of the Company amidst pending litigation in India.

Impact

Nexdigm's overall project management approach inculcated the management's high hope that the project will be completed as per timeline despite the complications rendered by the pandemic. Undeterred by pandemic restrictions/lock-down, our project team ensured that the Company is dissolved by 31 December 2020 by resolving every critical issue appropriately and in accordance with the law, delivering to the management's expectations.

As the Company was dissolved by 31 December 2020, it paved the way for the Group to claim potential tax relief to shareholders at their country of domicile, aggregating to EUR 14-15 million, maximizing the benefit to the shareholders of the Company.



We would like to thank Nexdigm for the unprecedented support for the liquidation of our Indian entity.

We were in a very complicated and time-pressed situation relating to the liquidation of the Indian entity. The Indian entity was going through several tax litigations during which the HQ had decided to liquidate the entity and this had to be done by adhering to timelines. While the liquidation process itself is a lengthy process, active litigations of the entity and the global pandemic in 2020 made it even more strenuous and demanding.

Nexdigm at this time came up with many innovative solutions to address the requirements at hand. The team was extremely focused and worked ceaselessly in bringing holistic and unique solutions to the project. The efforts and the structuring of the solution resulted in a historic case where a company dissolution was allowed with litigations still pending. Nexdigm tireless passion and timely and minute execution of the project, helped us complete the project before the timeline.

We would like to express our gratitude to Nexdigm team for their outstanding commitment towards working out a solution in the most challenging times.



Director Global Projects

For more information on this case study, please write to us at:

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You can also visit our website to know how our services resulted in tangible business benefits:

www.nexdigm.com