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Aralco presents unsecured creditors with option of converting debt to equity

Story:

Aralco, the Brazilian sugar and ethanol producer which has filed for bankruptcy protection, is offering its unsecured creditors the option of exchanging their debt for equity, according to a recovery plan submitted to the court Monday and made public today.

One option presented in the plan involves the conversion of unsecured debt into equity in a new corporation, Nova Aralco, which will be established as the holding company of the group, the document said. Unsecured creditors may exchange between 37.2% and 100% of their debt for equity. Debt not exchanged by holders choosing this option is to be repaid during a six-year period, in equal annual installments, following a four-year grace period.

In a second option, creditors can choose not to convert and be repaid over 10 years, following a four-year grace period, according to the plan. In the first five years after the grace period, 10% of the debt would be paid and the remaining 90% in the final five years.

In both options, Aralco is offering an interest rate of the IPCA inflation rate plus 1.5% for BRL-denominated debts, and a rate equivalent to Libor for USD-denominated debts.

The unsecured creditors who choose the first option will have a portion of their debt replaced with a corresponding value of "subscription" certificates to be issued by Nova Aralco. The certificates give creditors the right to subscribe shares in the new corporation at any time within a 10-year period starting from the date of the issuance, at a BRL1.00 for BRL1.00 rate, according to the document.

The value of 100% of the shares of Nova Aralco will be equivalent to BRL 240m (USD 114.3m), the documents said. If unsecured creditors choosing the first option demand conversion of more than 60% of the total amount of the debt, holders will be allocated the convertible securities so that the total remains at the 60% limit.

A minimum 27.4% threshold of total unsecured debt is required for the constitution of Nova Aralco. If demand to be converted via the first option is less than this minimum, all unsecured creditors will be repaid over 16 years, following a four-year grace period. In the first four years after the grace period, 10% of the debt would be paid and the other 90% during the remaining 12 years. The interest rate in this case would be the same of the other two options.

According to the plan, it is possible that Nova Aralco may incorporate four of the sugar and ethanol producer's subsidiaries that were previously excluded from the bankruptcy proceeding by the Brazilian court - Ar Transportes, Laboratorio Farmaceutico Caresse, Posto Verde Azul and Distribuidora de Bebidas Premium.

As for other types of creditors, Aralco is proposing to pay creditors considered strategic for the company, such as suppliers, over a four-year period. The so-called "sugarcane creditors" would be paid at the TR rate plus 1%. For the strategic agricultural supplier creditors, Aralco is offering an interest at the CDI rate plus 1%.

Labor liabilities will be paid within one year from the judicial approval of the plan. Holders of debt secured by assets are also being asked for a four-year grace period. They would be paid over the following two years at the CDI rate.

According to Brazilian bankruptcy law, creditors with secured debt have preference of payment after a debtor's labor liabilities are paid. The Aralco mill is pledged to Credit Suisse, with whom the company has a debt of nearly USD 130m regarding an export prepayment agreement, as reported.

Another mill, named Figueira, backs debt to Itau, for whom Aralco owes USD 8m. There is another USD 3m in secured loans whose details were not disclosed by the company.

Aralco's outstanding debt totals approximately BRL 1.1bn (USD 480m), USD 250m of which are 10.125% senior unsecured bonds, as reported.

Bondholders are now checking the figures upon which the proposals of the recovery plan were based. "They've taken the data provided by Aralco regarding the productivity of its plantation and its projections and are making their own calculations," said a source close to the matter. Aralco has submitted projections to its judicial manager, which included a projection of crushing at full capacity beginning in the 2018-2019 harvest period, as reported.

"The main issue remains what the equity component is worth," said a sellside source looking at the situation. He noted that Aralco needs to convince holders that they have a way to raise cash to continue operations, as simply having four years free of interest won't be enough.

After the filing of the recovery plan, creditors have 30 days to submit objections. The bankruptcy judge would then schedule a creditor assembly, which must occur within 90 days of the plan's presentation. The plan must be approved by more than half of the total value of debt represented in the assembly.

Virtus BR Partners is advising Aralco, as reported. Aralco filed for bankruptcy protection 28 February, and its request was accepted by the second civil trial court of Aracatuba 12 May.

Aralco's USD 250m 10.125% senior unsecured bonds due 2020 last traded at 13 on 24 June, according to MarketAxess.

by Aline Lima

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