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Knowledge SBU Initiative

Insolvency suspension necessary during Covid-19 times: IBBI Chief M S Sahoo

IBBI Chief M S Sahoo shared his views on the latest announcement of suspending the IBC initiation for a year and other challenges.

According to Sahoo, pushing firms to insolvency when there is nobody to rescue them will mean they will all die, which Government wants to avoid. He also said that one of the main reasons why suspending the IBC is required, in the current Covid-19 times, is that there are not enough 'White Knights' to rescue the firms in distress.

RBI may soften restructuring norms after govt's IBC relaxation

The one year suspension for filing new cases under the IBC and a default holiday for loans taken to deal with Covid 19 is likely to force RBI to soften its restructuring and provisioning norms to deal with stressed assets. Bankers said the blanket ban on new IBC entries leaves restructuring of loans as the only plausible route to cure default, but stringent RBI norms will have to be amended. RBI's restructuring norms at present are heavily reliant on the IBC. Banks have 180 days to restructure loans by extending the payment period, number of installments, reducing interest rates or sanctioning additional credit facilities.

Mumbai NCLT on its way to clear all pending scheme matters

The special bench of the NCLT Mumbai hearing the scheme matters including mergers, demergers and amalgamation of companies has disposed of majority of the cases through virtual hearings.

Speedy disposal of such scheme matters will help restructure companies for better efficiencies during the ongoing slowdown period. When the special bench had commenced hearing, about 350 cases were pending out of which over 200 have been disposed of already, and by the June end, all the pending cases are expected to be disposed of.

POINT TO PONDER

*"The great danger for most of us lies not in setting our aim too high and falling short; but in setting our aim too low, and achieving our mark."
–Michelangelo*

New-look inter-creditor agreement on the cards as IBC process suspended

The stage has been set for a major relook at banks' inter-creditor agreements (ICAs), following suspension of fresh cases under the IBC. The Indian Banks' Association can be expected to begin formal discussions with the wider banking fraternity over the next fortnight. *"The three-month moratorium, and the fact that a one-time restructuring may be needed, has triggered this relook,"* said a senior banker.

Ramdev International fraud: Why did SBI, other lenders wait for 4 long years to move CBI?

Ramdev International used to make grain mill products, starches and starch products. Details are hard to come by, but one can gather from the MCA website that the company was incorporated on April 5, 2004 with an authorised share capital of Rs 5 crore and paid-up capital of Rs 4.3 crore. The Balance Sheet was last filed on March 31, 2014 and the Annual General Meeting (AGM) last held on September 29, 2014.

According to a senior bank executive, banks typically delay reporting fraud even after sufficient evidence to avoid sudden one-time provisions. *"If an account becomes NPA, you need to make partial provisions depending up on the class of the asset. In most cases, this could start from 15 percent. But if the account is reported as fraud, this will be a 100 percent upfront provision. If you report fraud after a few years, the provisioning can be spread across a period; hence less impact on books,"* said the banker who requested anonymity.

Banks cling to restructuring hopes in tough year for recoveries

With the insolvency law remaining out of bounds for a year, banks are pinning their hopes on a regulatory dispensation for restructuring stressed assets. An existing restructuring scheme for MSMEs could also come in handy in a year that will have little to offer in terms of recoveries, bankers said. Unfazed by the absence of any mention of restructuring in the five rounds of briefings held by the finance ministry, industry executives expect the RBI to accede to their request for allowing a one-time restructuring of stressed assets without classifying them as bad loans.

***Feedback requested at ipa@icai.in**