

Objective of Resolution of a Stressed Asset through NARCL & IDRCL Mode will be to Facilitate the Entity in Gaining its Health Back: Shri Sunil Mehta

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Shri Sunil Mehta

Chief Executive, Indian Banks' Association (IBA)
&
Chairman, National Asset Reconstruction
Company Ltd (NARCL)

Shri Sunil Mehta has been appointed as Chairman of recently constituted National Asset Reconstruction Company Ltd (NARCL), commonly referred as Bad Bank. He is the Chief Executive of Indian Banks' Association (IBA) which acts as a representative of over 248 member banks and associate members operating in India and plays a collaborative role between banks, regulators, and government in improving customer service with a focus on digital banking.

Prior to this Shri Mehta served as the MD & CEO of Punjab National Bank. He is a seasoned banker with over 38 years of rich experience. He is part of various Committees representing IBA. Shri Mehta is recipient of "Top Rankers Excellence Award for Entrepreneurial Path Breaker" at 20th National Management Summit organized by Top Rankers Management Club, Delhi in 2019.

In an Exclusive Interview with **IIPI** for **The Resolution Professional**, Shri Mehta expressed his views on the concept and operational strategy of Bad Bank and other issues related to the IBC Ecosystem. *Read on to know more....*

IIPI: IBC, 2016 has recently completed first five years of operation. How do you visualize the journey so far towards resolution/reorganization of stressed business in India?

Shri Mehta: The Insolvency and Bankruptcy Code (IBC), 2016 has been brought in to rescue the Stressed Assets in financial sector and facilitate the entities for treatment as Going Concern (GC). The Code facilitates enhancement/ maximisation of the value of the stressed assets for all the stake holders. IBC being a crucial structural reform, would yield desired results if implemented effectively and in a time bound manner to produce major gains for the corporate sector and the economy as a whole. IBC played an indisputable role in improving India's Ease of Doing Business (EODB) ranking from 130 in 2016 to 63 in 2020.

Five years down the line, we need to see the working and performance of the in totality. If one looks at rescuing of stressed assets referred under IBC, it could be observed that in value terms, the cases accounting for 70% of the stressed assets were rescued, while the cases accounting for 30% of the stressed assets proceeded for liquidation. The provisions under the IBC, while acting as facilitators for resolution of stressed cases, also instilled a sense of discipline and integrity on the part of the promoters.

Like any other economic law, IBC is evolving in the context of life. It has been responsive to emerging market realities and has undergone prompt course corrections to stay in sync. In less than five years, IBC has witnessed six major legislative interventions in tune with the changing times. The recent one being the introduction of Pre-Packaged Insolvency Resolution Process (PPIRP) for Micro, Small and Medium Enterprises (MSMEs). The IBBI is continuously reviewing the working of IBC to identify issues impacting efficiency and effectiveness of processes and makes recommendations to address them.

In the words of the former Chairperson of IBBI Shri M S Sahoo ji, there is a need for evolving a comprehensive and objective framework to assess the working of the insolvency law to make prompt course corrections.

Undoubtedly, the IBC has been effective to a great extent so far, however, compliance to timelines remains an issue. The delays on most cases, are due to delay in court proceedings, as the NCLT and NCLAT are overburdened. Another challenge being the sole authority being vested with the Committee of Creditors (CoC) to control the RPs. The need of the hour is to enhance institutional capacity of the NCLT benches and bring in more transparency in the selection of RPs. It is learnt that the IBBI in consultation with all the stake holders is in the process of a Model Code of Conduct for the members of the CoC. IBA has also submitted a suggestive code in this regard.

IIPI: NARCL or Bad Bank has been touted to be a major reform in consolidating efforts for stress resolution in Indian banking ecosystem. What has prompted the policy makers to create such model? How different is the proposed model as compared to current dispensation involving ARCs, for instance?

Shri Mehta: Formation of National Asset Reconstruction Company Limited (NARCL) is a major structural reform in the recent times. It is a time-tested resolution framework already implemented successfully elsewhere in the world. Such initiative is relevant in our country in today's context where the existing set of ARCs (Asset Reconstruction Company) are not able to cater to the requirement. A Govt backed ARC of the magnitude of NARCL combined with the strength of a professionally managed Debt Management Company in the form of India Debt Resolution Company Ltd (IDRCL) and the ability to create a secondary market to the SRs issued in the process which are duly backed by the Sovereign Guarantee will make the concept a successful venture and a right fit in the current context.

Under the proposed set up, an ARC, and Asset Management Company (AMC) will facilitate aggregation and take over the existing legacy stressed debt and then manage and dispose of the assets to Alternate Investment Funds and other Potential Investors for better value realisation.

A consortium of banks under the aegis of IBA has taken steps for formation of the NARCL. The majority of the equity is proposed to be held by Public Sector Banks

(PSBs). NARCL has already approached the RBI for obtaining the ARC licence which is expected shortly. All other regulatory formalities in this connection have also been initiated.



IIPI: What is the road map and scope envisioned for Bad bank? Particularly how do you see Bad Bank's regime dovetailing into IBC's ecosystem?

Shri Mehta: The proposed setup involving formation of NARCL and IDRCL would function within the boundaries of the existing regulatory framework for resolution of stressed assets. IBC ecosystem would further facilitate the resolution on a faster mode paving way for the value maximization and realization in a quicker timeline. NARCL, IDRCL and IBC would complement activities of one another.

IIPI: The resolution (of stressed assets) is often considered as preferable route as compared to mere recovery. And in this direction, IDRC is being created to meet such objective. What are the contours of such modus operandi involving combination of NARCL and IDRC?

Shri Mehta: The objective of Resolution of a stressed asset through NARCL & IDRCL mode will be to facilitate the entity in gaining its health back and continue to be productive in the economy. Recovery of the dues is not the prime objective of IDRCL. Accordingly, the role of IDRCL will be to manage the stressed asset in a way which would enhance and maximize the value of the entity, facilitating early resolution within the timelines and enhance the public confidence through professional approach in the process of resolution. The majority of the equity in IDRCL is proposed to be held by private players.

IIPI: How do you envisage the emerging framework

and effective implementation of Code of Conduct for CoC members under IBC?

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Shri Mehta: The Discussion Paper brought out by IBBI dealt with the subject of code in a 360-degree view. Public Comments on the Discussion Paper are already under consideration. IBA on its part also facilitated suggesting a Model Code of Conduct through a participative process involving all the Member Banks, Professional Bodies such as IIIP of ICAI. I am sure IBBI would soon come out with a comprehensive Code of Conduct for the CoC.

IIPI: What words of wisdom and guidance, would you like to offer to IPs, Creditors and Debtors to make IBC a robust framework in near future, especially keeping in view the learnings arising out of Covid pandemic?

Shri Mehta: Institutions are foundations of a well-functioning market economy. Dealing with the role of IPs, one would agree that insolvency profession is a key institution of market processes under the IBC. An insolvency process demands the highest level of competence as well as the highest standards of integrity of the Insolvency Professionals (IPs). I believe they have performed exceedingly well, in the face of vested interests. Although a few instances have brought criticism to the profession, the overall contribution of IP community to the cause is laudable. The profession is still in its infancy and establishing its legitimacy and now is the time to lay a strong foundation of professionalism. Creditors and Debtors are defined with a definite framework under the IBC and adherence thereto shall give much needed impetus in speedier resolution of the cases.

