

Setting up of NARCL-IDRCL platform is a major reform to address the large NPAs of the Indian Banking system: Shri Natarajan Sundar, MD&CEO, NARCL

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Shri Natarajan Sundar

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Shri Natarajan Sundar is the MD & CEO of NARCL, which been set up with a strategic initiative to clean up the legacy stressed assets with an exposure of ₹500 crore and above in the Indian Banking system.

Mr. Sundar is a veteran banker and had an extensive experience at State Bank of India (SBI). During his stint at SBI, Mr. Sundar held the position of Deputy Managing Director (DMD) and was working as Chief Credit Officer for the Bank. Prior to taking the responsibilities of DMD, Mr. Sundar was the Chief General Manager (CGM) in Credit Review Department (June 2018 to June 2020) and Project Finance SBU (June 2016 to June 2018). He carries over three decades of experience in the banking sector spanning across Corporate & Wholesale Banking, Corporate Credit, International Banking, Project Finance, etc.

*In an Exclusive Interview with IIIPI for The Resolution Professional, Shri Sundar shared views on various aspects of stressed assets market in India and the role, responsibilities, and strategy of NARCL in resolving stressed assets in the country. **Read on to know more....***

IIIPI: After over six years since inception of IBC, 2016 the outcome has been encouraging vis-à-vis the earlier regimes, though a lot more needs to be done for making the regime robust. What are your views on such outcomes with an eye on the future?

Shri Sundar: Some of the large operating assets have seen good resolution under the IBC. The Code has given due weightage to Creditors in Control process for resolution. Average recovery through IBC has been reported at 36% in FY23 compared to 23% in FY22 and a mere 17% in FY21. Through the realisation has improved recently it is still much lower than 54% recovery in FY18 and FY19, the first two years after the law came into force. The long-term recovery average is estimated at 26% as the time taken for resolution has increased from 370 days to 831 days. This has led to further deterioration in the value of the assets leading to an even lower recovery for non-operating assets under IBC. The Prospective Resolution Applicants are making their offers at steep discount to the fair value of the Corporate Debtor (CD) assets especially for non-operating assets resulting in major haircuts for the creditors. Also, the process is being stalled by some of the stakeholders under different pretexts, which are not entirely desirable.

Following changes need to be brought to fast-track resolution under IBC:

Mandatory admission of Section 7 applications, once default is established: An amendment to Section 7 of the IBC, to clarify that while considering an application for initiation of CIRP by financial creditors, the Adjudicating Authority (AA) is only required to be satisfied about the proof of debt and the occurrence of a default. The IBC norms says that a case cannot be rejected if the tribunal is satisfied with these two factors.

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There should be no interventions from other courts preventing admission of CD into CIRP. For instance, there is a recent High Court order that granted stay on admission of steel company for insolvency process. As a result, the process gets delayed, and the resolution takes over two to three years. No such intervention be allowed to achieve timely resolution of stressed assets.

There is a need to set a deadline after which the promoters should not be allowed to submit unsolicited Resolution Plan under Section 12A. This will expedite the resolution process because often promoters submit a revised Resolution Plan after final plans from all the resolution applicants are shared with lenders and likely to be put for vote. This leads to litigation and delays in completion of CIRP.

IIPI: Asset reconstruction companies envisaged under SARFAESI Act 2002 have played a critical role in recovering banking dues gone bad. How has been your assessment of the ARCs' (Asset Reconstruction Companies) journey so far and outcomes under SARFAESI?

Shri Sundar: The ARC journey has been evolving in nature. It started with purely fee-based model to 5:95 Cash:SR structure back in 2003-2004. The idea was to free up the bandwidth of the banking system and create a specialised entity by focusing only on resolution and recovery from the stressed accounts.

The integral attractiveness of structured trades (Cash + SR basis) was that Upside in the form of additional recovery over and above the purchase consideration to be shared with the lenders in the proportion of SRs being held by the seller and the ARC in the trust in a transparent manner.

SARFAESI was an enabling tool for ARCs to fast track the recovery compared to long drawn resolution process under BIFR and DRT.

The ARCs bid aggressively with favourable terms in the form of higher management fee and recovery incentive to recover its 5% investment and make sizable returns on the same. But this approach led to substantial under-recovery

for the lenders and write-down of the SRs being held by them.

RBI enhanced the investment of ARC from 5% to 15% so that the ARCs can focus more on recovery as its contribution of the purchase consideration increased substantially. This led to rationalising of pricing of the assets to some extent.

The ARCs saw an opportunity to build larger AUMs and continued to bid aggressively with higher management fee and recovery fee/incentive. The structured trades continued in a major way until 2018.

On the other hand, RBI discontinued all the regulatory forbearance under various schemes of CDR, SDR, S4A, JLF and 5:25 for restructuring of defaulted loans in Feb 2018. These were replaced by a single scheme of restructuring as per extant RBI circular dated Feb 2018 that was further replaced in Jun 2019. Thus, in the current market, the prominent modes of resolution are restructuring as per Jun 19' RBI circular, OTS/assignment of debt and resolution under the IBC framework.

2019 onwards banks moved towards all cash sale of assets as there was no relaxation in the provisioning norms. Also, the banks believed that upfront cash was the most credible source of recovery viz-a-viz the future cash flows that were contingent in nature. With higher provisioning coverage ratio, banks were more inclined towards upfront settlement.

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As the banks moved from 5:95 trades to all cash trades, the SARFAESI tool in the hands of banks/ FI and ARCs has been very useful although there have been attempts to derail the process by resorting to legal means by finding loopholes in charge creation by the lender. Overall, SARFAESI acts as a device for lenders to monetise tangible hard assets through SARFAESI to the extent

possible or enter into restructuring with the borrower at appropriate terms with market price linked recovery assumptions for the hard assets.

IIPI: The NARCL, more popularly known as Bad bank, along with IDRCL have been created to resolve stress in the Indian banking. What is the vision behind this step? Also, what are the immediate priorities for NARCL?

Shri Sundar: As the banks moved towards cash deals only, the immediate concern was that only a few ARCs in the country were having capital to acquire large, distressed assets. Moreover, due to high cost of funding and uncertainties involved, the existing ARCs in the market were only keen to bid for the operational/ cash generating assets. The pricing for underutilised/ non- operational/ stuck assets was minimalistic or there were no bidders for the same.



Pricing these assets could be difficult as value unlock would happen after providing the requisite handholding to the under-utilised assets. Further the existing litigations are required to be perused by the stakeholders in a cohesive manner. The key enabling factor would be to aggregate debt in one single platform and work alongside with the borrower/investors, regulators/ authority, and the lenders to strike a balance and resolve the complex situation in a win-win proposition for all the stakeholders.

Hence at a mutually agreed market-based pricing, there could be a possibility for upside to the lenders once critical issues are addressed. Moreover, the downside risk is completely protected for the lenders. Thus, sale to a credible ARC on a 15:85 basis is a most optimum strategy for resolution and value maximisation from such assets.

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To resolve these issues, NARCL and IDRCL were formed to facilitate the banking industry to resolve large legacy sticky assets, where there was no market making/ price discovery happening.

For example, in Infra sector for EPC and Road assets, NARCL/ IDRCL can aggregate a portfolio of stuck and litigated projects. It can subsequently pursue the long-standing arbitration awards and claims and fast track the realisation from the contingent receivables by active participation in the conciliation proceedings and investing for legal expenses wherever needed.

GoI has created the NARCL/ IDRCL platform which is owned by the Banks and facilitated it by providing the GoI guarantee for SRs issued by NARCL so that the selling lenders can take decision to aggregate the asset at NARCL in a timebound manner.

Lastly, the vision to create NARCL/ IDRCL was to free up the bandwidth of lenders and allow them to focus on core activity of increasing credit to fuel the growth levers of the economy and aggregate all the large NPAs exceeding ₹500 Cr to achieve timely resolution in a completely transparent manner.

IIPI: Broadly speaking, what would be the modus operandi of NARCL and IDRCL, in resolving distressed assets with particular reference to dispensation under IBC being available as an alternative?

Shri Sundar: NARCL after due diligence and after obtaining a price advisory from IDRCL, makes a binding offer to acquire the large ticket NPAs from the banks. Basis the binding offer made by NARCL; a Swiss Challenge process is run to do a fair market price discovery of the asset. Once the assets are acquired, IDRCL, an exclusive advisor is entrusted with the responsibility of day-to-day activities for timely resolution of the asset.

The biggest advantage of NARCL platform is majority debt aggregation (more than 75% debt share) and implementation of the best suited resolution strategy to maximise the value for the Corporate Debtor (CD) as well as for all the stakeholders.

Key strategies to be adopted by NARCL/ IDRCL for asset resolution include:

- a) Restructuring with existing borrower under extant RBI guidelines,
- b) Monetization of assets through SARFAESI and other modes,
- c) Resolution under IBC through implementation of resolution plan as per the CIRP/ Liquidation.

NARCL has been formed to resolve the legacy assets through various means and recovery through liquidation is the last option if other options fail.

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It may be mentioned that NARCL (along with its exclusive advisor IDRCL) could contemplate IBC as one of the tools for resolution of the sticky assets. The range of other strategies for asset resolution by NARCL/ IDRCL is much wider as compared to resolution under IBC.

There are more flexibilities while restructuring a distressed account as compared to the lenders. For example, restructuring with the existing sponsors by ARCs would not mandatorily require an investment grade rating. Hence, restructuring can be explored such that borrower interest can be aligned to the extent possible to maximise the recovery for the lenders.

Also, since more than 75% of debt would be aggregated by NARCL, implementation of any resolution strategy might be much faster that would protect the economic value of the asset.

IIPI: ARCs have been playing role as members of CoC from the inception of IBC. Further, recently RBI has allowed ARCs to participate even as Resolution Applicant under IBC processes, subject to certain conditions. How has this recent development changed the dynamics of ARCs' operations?

Shri Sundar: ARCs have normally played an active role in the resolution of assets by being a member of the CoC as a lender although at time with minimal debt share of the CoC.



The strength of the ARC lies in its expertise in financial turnaround of the asset. This aspect is achieved by implementing case specific financial restructuring to align the repayments with cashflows and effective monitoring on regular basis.

Considering the expertise in resolution of stressed assets, RBI has allowed ARCs to act a Resolution Applicant (RA). Acting as a RA would entail significantly much higher responsibilities to achieve a time bound resolution of an account. At the same time, it would provide ARC with more decision-making powers in the operational matters of the CD.

However, for various core activities of the CD, it would engage with the experts in the requisite areas of operations. The ARC might continue to run the business till the time it starts generating positive free cash flows and subsequently monetize the asset at higher enterprise valuation to facilitate its exit.

This will still require a huge set up of operational, legal, audit/ tax and compliance experts. In the present Eco system, as such not many ARCs are eligible to act as a RA. Those who are eligible would devise their well thought out strategy to participate in the IBC process as a RA.

In my opinion, ARCs would be very selective & bid cautiously for an asset under IBC to become as a Resolution Applicant.

NARCL along with IDRCL has recently submitted a consolidated resolution plan as a RA for two large NBFC accounts. After making a detailed assessment of the opportunity, we found that there was lot of synergies in taking up the account for resolution as a RA and submitted our resolution plan. NARCL plan has been voted by the COC as a successful resolution plan. Overall, we believe

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that by allowing ARCs to participate as RA will increase the competition amongst the participants and deepen the market. It would facilitate in maximisation of the value of the underlying assets and consequent better realisation for all the existing stakeholders.

IIPI: The market for stress resolution in India is yet to gain depth. What sort of guidance and expectations, would you like to share with market participants and stakeholders in this regard?

Shri Sundar: GoI as well as the Regulators (RBI and SEBI) are continuously making concentrated efforts to provide enablers for expanding the market for distressed assets. With the reforms carried out over the due course of time, international players are also getting attracted to participate in Indian distressed asset market.

Setting up of NARCL -IDRCL platform is a major reform to address the large NPAs of the Indian Banking system. To provide the confidence to the lenders & subsequently to the investors, GoI has provided guarantee for the assets to be acquired by NARCL.

Since NARCL is participating in all type of sticky assets, it has provided a good market and price discovery for the lenders. In many assets, with NARCL participation, there is a substantial improvement in the acquisition price.

Once entire debt is aggregated at NARCL platform, the interest from market participant in forthcoming resolution is high as investors do not want to invest their time with too many players resulting in an inordinate delay.

Some procedural/ regulatory issues need to be resolved fast to make the system more efficient. For example, if issues like attachment of assets by agencies, check on prolonged frivolous litigations etc are addressed, it would help in deepening of the market.

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I am quite confident that NARCL-IDRCL would make a positive impact in achieving meaningful resolution of large sticky assets. Once a large chunk of assets is aggregated, NARCL would provide a good platform for development of secondary market for trading of SRs.

