

'Bankruptcy Code may help unlock Rs 25k-cr NPAs'

NEW DELHI, PTI: Effective implementation of Insolvency and Bankruptcy Code can potentially release about Rs 25,000 crore capital over next four to five years currently locked in bad loans, according to a report.

"If implemented successfully, the code will help India's banking sector catch up with or even exceed the recovery rates of 32% and average time taken of 2.8 years in other emerging markets," said an Assocham-Crisil joint study.

It said the capital released can be deployed for other productive lending which could help in credit expansion.

Insolvency and Bankruptcy Code, 2016, seeks to consolidate and amend laws relating to reorganisation as well as insolvency resolution of corporate persons, partnership firms and individuals in a time-bound manner. Economic Affairs Secretary Shaktikanta Das last month had expressed hope that the Bankruptcy and Insolvency law would become operational by the end of this year.

Under the new law, notified in May, employees, creditors and shareholders would have powers to initiate winding up process at the first sign of finan-



cial stress such as serious default in repayment of bank loan.

Highlighting that the code will contain slippages into NPAs by spawning better credit discipline, the study noted that the RBI has tightened norms for wilful defaulters, which, together with implementation of the code will enhance recoveries from such borrowers and improve credit discipline.

The study also said that this legislation could improve recovery rate of asset reconstruction companies (ARCs) which has been low at an average of 36%. "With greater certainty of outcome and faster resolutions expected because of the code, the interest of both domestic and foreign investors in lower-rated paper will increase over a period of time," the study said.

BANKRUPTCY CODE TO FREE UP ₹25K-CR

AGE CORRESPONDENT
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The effective implementation of the Insolvency and Bankruptcy Code, 2016 can potentially release about ₹25,000 crore capital currently locked up in non-performing assets over next 4-5 years.

"If implemented successfully, the code will help India's banking sector catch up with or even exceed the recovery rates of 32 per cent and average time taken of 2.8 years in other emerging markets," said a joint study done by Crisil and Assocham.

Highlighting that this code will also contain slippages into NPAs by spawning better credit discipline, the study said, "The Reserve Bank of India has already tightened norms for willful defaulters, which, together with implementation of the code, will enhance recoveries from such borrowers and improve overall credit discipline".

According to it, the legislation could also improve recovery rate of asset reconstruction companies (ARCs), which has been low at an average of 36 per cent, with resolution taking about five years. This is very important since the timely recovery remains key to long-term sustainability of ARCs.

"Effective implementation of the code will help in preserving the value of asset and faster resolution so that ARCs will be able to churn capital faster and enhance returns. The new code along with 100 per cent foreign direct investment in ARCs through the automation route is expected to boost capital flows. It will also attract investments into the distressed assets space, open up new avenues for ARCs and help them participate in the huge market for NPAs," the study said and added that the released capital can be then deployed for other productive lending, which in turn could help in credit expansion. Another positive impact of the legislation would be on the corporate bond market.

■ With greater certainty of outcome and faster resolutions, the interest of both

'Bankruptcy Code may help unlock ₹25k-cr NPAs'

The effective implementation of the Insolvency and Bankruptcy Code can potentially release about ₹25,000-crore capital over the next four-five years currently locked in bad loans, according to a report. "If implemented successfully, the code will help India's banking sector catch up with or even exceed the recovery rates of 32% and average time taken of 2.8 years in other emerging markets," said an Assocham-Crisil joint study. It said the capital released can be deployed for other productive lending which could help in credit expansion.

Bankruptcy Code can unlock ₹25k cr in NPAs in five years: Assocham

New Delhi

Proper implementation of the Insolvency and Bankruptcy Code, 2016 can potentially free about Rs 25,000 crore capital locked up as non-performing assets (NPAs), or bad loans, over the next four-five years, Assocham said on Monday, reports IANS. The Associated Chambers of Commerce and Industry of India (Assocham) made the observation citing a study, "Insolvency and Bankruptcy Code 2016: A Game Changer", which it conducted jointly with rating agency Crisil.

In a statement, it said: "If implemented successfully, the code will help India's banking sector catch up with or even exceed the recovery rate of 32 per cent and average time taken of 2.8 years in other emerging markets." The released capital can be deployed for other productive lending which, in turn, could help in credit expansion, the report said. The code will also help foster better credit discipline, it said.

"The Reserve Bank of In-



dia (RBI) has already tightened norms for wilful defaulters which, together with implementation of the code, will enhance recoveries from such borrowers and improve overall credit discipline," the report said. Assocham also said that the legislation could improve recovery rate of asset reconstruction companies (ARCs), which has been low at an average of 36 per cent and resolution taking about five years, as timely recovery remains key to long-term sustainability of ARCs.

According to the study, "effective implementation of the code will help in preserving the value of asset and faster resolution, so that ARCs will be able to

churn capital faster and enhance returns". "It will also attract investments into the distressed assets space, open up new avenues for ARCs and help them participate in the huge market for NPAs."

Assocham further said this code will aid development of corporate bond market. "With greater certainty of outcome and faster resolutions expected because of the code, the interest of both domestic and foreign investors in lower-rated paper will increase over a period of time," it said. "Strong bankruptcy code can strengthen creditor rights and can lead to deepening of bond markets."

Moreover, combined with

other ongoing structural reforms, the code is expected to improve India's Ease of Doing Business and Global Competitiveness rankings significantly.

"With the implementation of the code, India's position in World Bank's Ease of Doing Business ranking will improve, attracting more foreign investors," the study noted. According to Assocham, India's ranking would also improve in terms of the World Economic Forum's Global Competitiveness ranking once the code gets implemented successfully, thereby improving the financial market development parameter, which is one of the 12 parameters taken into consideration.

"Over a period of time, the code will help promote entrepreneurship and increase the role of professionals from various fields, such as law, accountancy and finance," the study said.

It also said that the code will benefit employees and workmen, as they can initiate insolvency proceedings for unpaid dues.

