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# Bankruptcy code to help borrowers with low ratings

By *Saikat Das*, ET Bureau | Updated: May 09, 2016, 04.19 AM IST

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MUMBAI: Bankruptcy code, a time-bound settlement for insolvency, could well turn out to be a blessing for lower-rated borrowers, including ecommerce biggies such as [Flipkart](#), [Snapdeal](#), Ola as well as real estate companies, which in turn, would offer higher rates to yield-hungry bond investors amid a falling rate regime. [Lok Sabha](#) has cleared the Bill, paving the way for its enactment, and it has to now pass the Rajya Sabha test.



The legislation will cut the resolution time when a borrowing entity fails to pay up on time. Lenders/investors, according to the provisions, can recover dues within a period of 180 days, with an extension of another 90 days, provided three-fourth of the creditors agree. With little recovery chance, the company will be liquidated automatically.

Now, India's corporate bond market is fraught with shallowness as only top-rated corporates can raise funds at reasonable rates. The market is almost non-existent for firms with below AA-ratings, and is thin for AA categories. "Institutional investors are ready to take calculated risks provided insolvency laws are exercised with ease like in other emerging and developed markets," said Ajay Manglunia, executive VP (fixed income) at Edelweiss Finance. "If the bankruptcy code becomes a reality, many real estate and new-age companies can access the corporate bond market as investors too would repose faith."

**Booster Dose**  
Time to resolve insolvency is so far a time consuming affair

Some acts like SARFAESI only available to banks and non-banking companies

**World Bank: Time to resolve Insolvency (in years)**

India	4.3
US	1.5
UK/Malaysia	1
Singapore	0.8
Japan	0.6

The bond market has not yet opened boundaries to them unlike equities. Those companies, incorporated just a few years ago, cannot show a persistent track record of profitability while they hardly have any tangible assets that earn value for them at the time of crisis. Last year, Flipkart was believed to have tested the debt [funding](#) route only to find investors demanding rates in high teens. "The time-bound bankruptcy code will help investors realise the value of their underlying assets....," said Siddharth Rath, group executive at Axis Bank.

"Investors with a higher risk appetite would now look at lower-rated companies with future growth prospects over a period of time." For real estate companies, which are struggling with high inventory, too can see the light of fresh credit lines. With poor ratings or noratings, some of them are now seen striking bilateral bond deals, paying as high as 22% with one to five years maturities.

[World Bank](#), updated till 2015, shows that the time to resolve insolvency (number of years from the filing for insolvency suit in court until the resolution) is 4.3 years in India compared with just eight months in Singapore, one year in Malaysia as well as the United Kingdom, and 1.5 years in the US. "With the implementation of the bankruptcy code...it will also attract greater participation from foreign investors and investors scouting for higher returns at calculated risk," said Rakesh Garg, managing director and head of global finances at Barclays.

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