RBI’s second IBC list: After 20 months, just three assets close to resolution

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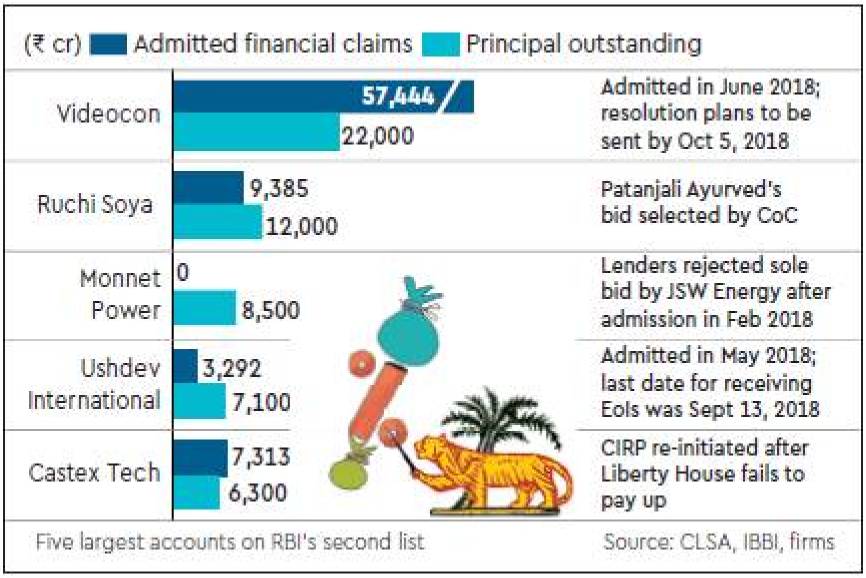
State Bank of India (SBI) withdrew its insolvency petition against Uttam Galva Steels in November 2018 after a settlement that involved a repayment of dues by ArcelorMittal.

RBI?s second IBC list: After 20 months, just three assets close to resolution (Reuters)

Of the over two dozen companies named by the Reserve Bank of India (RBI) in its second list of large non-performing assets (NPAs), only three — Ruchi Soya Industries, EPC Constructions and ARGL — have come close to being resolved successfully through the corporate insolvency resolution process (CIRP) since August 2017, when the list is known to have been sent to banks.

The second list involved companies with a total principal outstanding of Rs 1.28 lakh crore, according to a March 2018 report by CLSA. For these three accounts, their respective committees of creditors (CoCs) have selected successful bidders — Patanjali Ayurved for Ruchi Soya, Royale Partners for EPC Constructions and CarVal-Arcil for ARGL.

While three other accounts from the list have been resolved by bankers, the procedure involved was beyond the purview of the insolvency law. State Bank of India (SBI) withdrew its insolvency petition against Uttam Galva Steels in November 2018 after a settlement that involved a repayment of dues by ArcelorMittal. Most banks have sold their exposure to Jayaswal Neco Industries to Bank of America through Assets Care & Reconstruction Enterprise (Acre). Exposures to Jai Balaji Industries have been sold to Edelweiss Asset Reconstruction Company (ARC) by at least four banks at a 63% haircut, with a 15% cash component being paid upfront.



Two assets have gone for liquidation. One of them is Coastal Projects, for which the liquidation order was passed in December 2018. The other, Shakti Bhog, is being liquidated under a Delhi High Court order in a different case and, as a result, was not admitted for insolvency. A few others, such as IVRCL and Unity Infraprojects, may also be on their way to liquidation.

A bulk of the assets — 15 in all — have been admitted and are in various stages of the insolvency process. Time overruns have plagued many of these, with reasons ranging from non-payment by the chosen bidder in the case of Castex Technologies to promoters not handing over the company premises to the resolution professional (RP), as in the case of East Coast Energy. The largest asset on the list — Videocon Industries — was admitted in June 2018 and resolution plans were to be sent in by October 5, 2018. Some cases are taking longer to resolve as a result of extension of deadlines for bids by RPs.

Banks have turned impatient and have tried to ease their provisioning burden by palming off some of these assets bilaterally in exchange for a full-cash payment. These attempts have not always been fruitful. For its exposure to Jai Balaji, SBI has put out sale notices three times since October 2017. In 2018, Bank of India put out sale notices for Visa Steel and Wind World Infra twice.

SBI's plea against Visa Steel is awaiting admission by the insolvency court. The period of CIRP for Wind World was extended by 90 days in August 2018, taking it to a total of 270 days. Asian Colour Coated Ispat was admitted in July 2018 after repeated attempts to sell the asset to ARCs failed.

Data recently released by the Insolvency and Bankruptcy Board of India (IBBI) showed that admission of cases picked up pace in the March quarter. At the same time, liquidation has been the most frequent outcome — in 53% of all cases admitted. Even for assets that saw full resolution, haircuts have been too high for comfort. In a recent note, Kotak Institutional Equities (KIE) said based on available data for all 94 cases resolved under the insolvency resolution process till the end of Q4FY19, financial creditors have faced a haircut of 52% on admitted claims.

This is unlikely to improve even if more second-list companies get resolved. In its March 2018 note, CLSA had said barring Ruchi Soya, another 24 assets on the second list would entail haircuts of between 45% and 90%. Ruchi Soya, for which CLSA had forecast a 33% haircut, is set to cost its lenders a much higher 52%.