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Market Watch

# Resolution delay forces banks to put NPAs on sale

BY SHILPY SINHA, ET BUREAU | UPDATED: OCT 22, 2019, 01.12 PM IST

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Mumbai: Banks have been forced to put nonperforming assets (NPAs) worth Rs 40,000 crore up for sale in sectors such as power, roadways and telecom in the first half of the fiscal year to September because of delays in the resolution process under the Insolvency and Bankruptcy Code (IBC). The prescribed timeline for IBC resolution has been derailed by various stakeholders challenging the process in court.

Data from the Insolvency and Bankruptcy Board of India (IBBI) showed that as much as 34% of the 1,292 cases in the bankruptcy courts up to June have been delayed beyond the scheduled 270 days, up from 26% a year ago and 31% in the March quarter, giving rise to fears that this could make the law ineffective, as has happened to previous such endeavours. Lenders are also looking to asset-reconstruction companies (ARCs) to acquire nonperforming assets (NPAs).

"Banks are interested in resolution and recovery through NCLT (National Company Law Tribunal), OTS (one-time settlement), ARCs," said a public sector bank CEO. "In some cases, where resolution is delayed for a long time, banks are opting for sale to ARCs."

In all, 11 private and state-run banks, have put NPAs up for sale. Bank of Baroda has offered assets worth Rs 11,000 crore, [IDBI Bank](#) is looking to sell Rs 9,756 crore of assets and [Andhra Bank](#), Rs 4,887 crore.

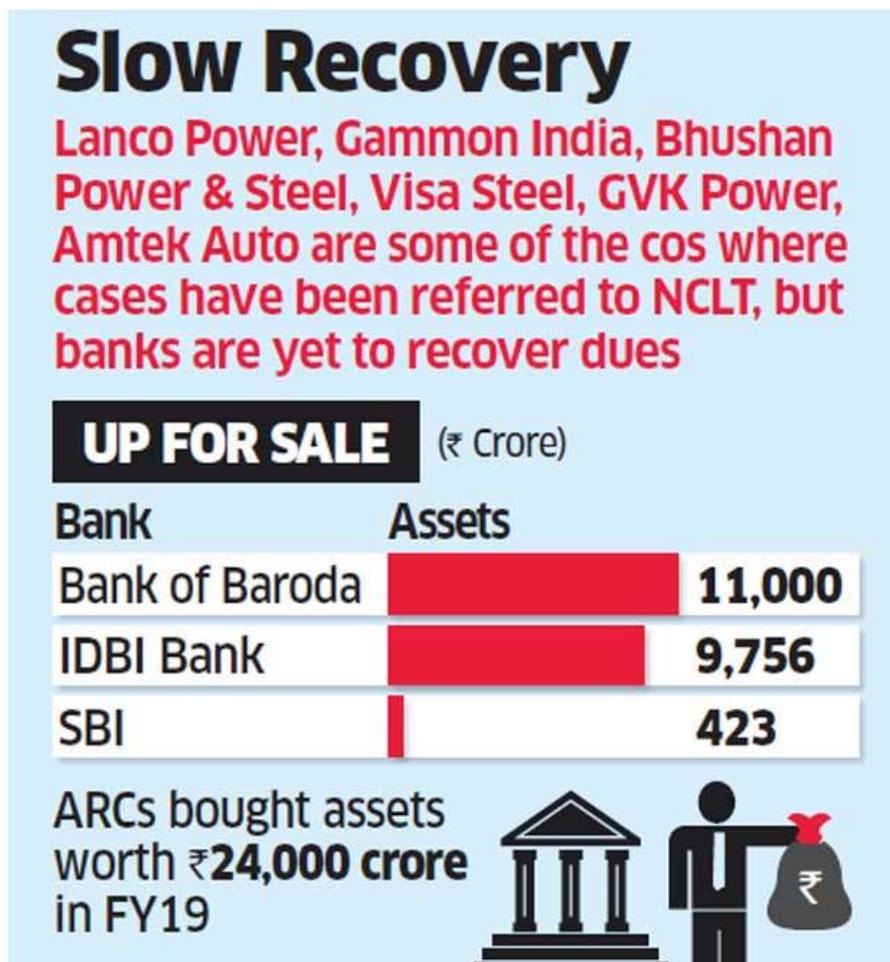
"Banks have their own profitability to worry about and they do not want to hold on to entire NPAs and wait for resolution through the NCLT process," said Abhishek Dafria, vice president and sector head, structured finance, ICRA. "Timely conclusion of NPAs is important for the entire system to work efficiently. Those who are buying from banks also rely on NCLT for liquidation value."

While the IBC operates through NCLT benches and the National Company Law Appellate Tribunal (NCLAT), litigants have also approached the Supreme Court for redress.

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The code is regarded as one of the signature reforms of the Narendra Modi government's first term.

It was aimed at speeding up the bankruptcy process, so that banks could fix their finances, restore credit growth and drive investment.

"Banks are frustrated with the delay in resolution process," said Edelweiss Asset Reconstruction Co. chairman Siby Antony.

"Banks are also trying to put assets for sale as a last resort where they do not get the liquidation value."

The government has made changes to the IBC to ensure that timelines are adhered to.

"In most cases, there is a delay caused due to unnecessary applications being filed by promoters and related parties," said Ashish K Singh, founding partner, Capstone Legal. "NCLT should take a stringent view towards such frivolous applications either through imposition of exemplary cost whenever it is necessary. Costs as a mechanism to desist frivolous litigation is used extensively by courts overseas, especially the insolvency tribunal in the UK."

Banks are opting for the asset-disposal route as some large NPAs from the first list referred to the NCLT by the Reserve Bank of India (RBI) in 2017, including Jaypee Infratech, Amtek Auto, and Bhushan Power & Steel, are yet to be resolved.

In instances where there's little interest on the part of bidders in assets, banks are resorting to measures such as sales to ARCs.

India's 30 ARCs bought assets worth Rs 24,000 crore from banks in the last financial year.

ARCs have to pay 15% of the purchase consideration as per current regulatory norms while the remaining can be picked up by qualified institutional buyers, many of them overseas entities such as [Goldman Sachs](#). "For loans pertaining to sectors associated with regulatory issues like power, roadways, telecom, ARC sales is the best route for present value retention and maximization on a later date," said Hari Hara Mishra, director, UV Asset Reconstruction.

“In such transactions, security receipt should be preferred so as to have a large chunk of upside over present distress value.”

Total NPAs in the banking system are pegged at Rs 9.3 lakh crore.

Of this, experts say Rs 2 lakh crore can be sold to ARCs. “Last year, the volume of sale was good because banks were in PCA (prompt corrective action) and it helped them by selling down,” said Chandan Churiwal, senior vice president at Assets Care & Reconstruction Enterprise Ltd.

“Banks are seeing the near-term benefit, where they would look into improving their NPA book.

ARCs can hold on to assets for a longer time.”

While a timebound recovery is essential, valuation gaps are leading to delays in closure through ARCs. “Whenever there is a gap between reserve price and bid price, closure is not happening,” said Churiwal. “In most cases, banks are unable to provide detailed information on underlying assets.”

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