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Recovery through insolvency process better compared to other options: IBBI chief M S Sahoo

BY PTI | MAR 02, 2020, 03.33 PM IST

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New Delhi: Asserting that recovery through [insolvency law](#) process has been better, IBBI chief M S Sahoo has said creditors have recovered Rs 1.6 lakh crore, which is 207 per cent of the realisable value of assets of 190 companies rescued till December last year under it.

The [Insolvency and Bankruptcy Code \(IBC\)](#), which came into effect in 2016, provides for a time-bound and market-linked resolution of stressed assets. In case, the resolution does not happen, the company concerned goes for liquidation.

Sahoo, Chairperson of the [Insolvency and Bankruptcy Board of India \(IBBI\)](#), said incidental recovery has been pretty good under the Code.

"190 companies have been rescued till December 2019 through resolution plans. They owed Rs 3.8 lakh crore to creditors.

"However, the realisable value of the assets available with them, when they entered the IBC process, was only Rs 0.77 lakh crore. Thus, the amount the companies owed to creditors was not backed by assets on the ground," he said.



"As compared to other options, recovery through the IBC process has been better," Sahoo said.

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Noting that the Code maximises the value of the assets on ground and not of the assets which do not exist, Sahoo said creditors recovered Rs 1.6 lakh crore, which is 207 per cent of the realisable value of assets of the companies.

"Any other option of recovery or liquidation would have recovered at best Rs 100 minus the cost of recovery/ liquidation, while the creditors recovered Rs 207 under the IBC. The excess recovery of Rs 107, in addition to rescue of the companies, is bonus on account of the IBC," Sahoo told PTI in an interview.

According to him, financial creditors had to take a haircut of 57 per cent compared to their claims and that reflects extent of value erosion by the time the companies entered IBC process.

"It is important to note that the 190 companies resolved under the IBC include 66 companies which were defunct or in BIFR (Board for Industrial and Financial Reconstruction)," he added.

When asked whether the success of the IBC is not just in numbers, Sahoo said given the behavioural change, the performance should be seen in totality.

It should be seen in terms of "what happens under the IBC, what happens on account of the IBC and what happens in the shadow of the IBC," he said.

"190 companies were rescued, while 780 companies were referred for liquidation. Thus, the number of companies getting into liquidation is four times that of companies being rescued. These 190 companies, however, had assets, which is four times of the assets of the 780 companies.

"Thus, asset rescued is four times compared to those referred to liquidation. Importantly, of the companies rescued, one-third were under BIFR or defunct. Of the companies that proceeded for liquidation, three-fourths were under BIFR or defunct," the IBBI chief said.

So far, around 3,600 companies have been admitted for resolution under the IBC. Out of them, about 200 have been resolved through resolution plans and 800 gone for liquidation. Around 150 applications have been withdrawn.

A company is taken up for resolution under the IBC after approval from the National Company Law Tribunal (NCLT).

"As compared to other options, recovery through the IBC process has been better," Sahoo said.

Citing an RBI data, he said it indicates that in 2018-19, banks recovered 5.3 per cent, 3.5 per cent, 14.5 per cent and 42.5 per cent of the amount involved through Lok Adalats, DRTs (Debt Recovery Tribunals), SARFAESI (Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act) and the IBC, respectively.

"Credible threat of the IBC process that a company may change hands has changed behaviour of the debtors. Thousands of debtors are settling defaults in early stages of the life cycle of a distressed asset," Sahoo said.

Further, the IBBI chief said stakeholders, who understand business and who have backing of sophisticated professionals, are using the IBC with open eyes, after evaluating all options.

"They are taking decisions whether to use IBC and when to use, and whether to accept a resolution plan or to liquidate a company, under the facts and circumstances of each case. If they do not find value in IBC in case of a company, they would not use it," he added.

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