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Market Watch

# Covid-19 puts question mark on IBC process

BY SALONI SHUKLA &amp; SACHIN DAVE, ET BUREAU | APR 01, 2020, 09.38 AM IST

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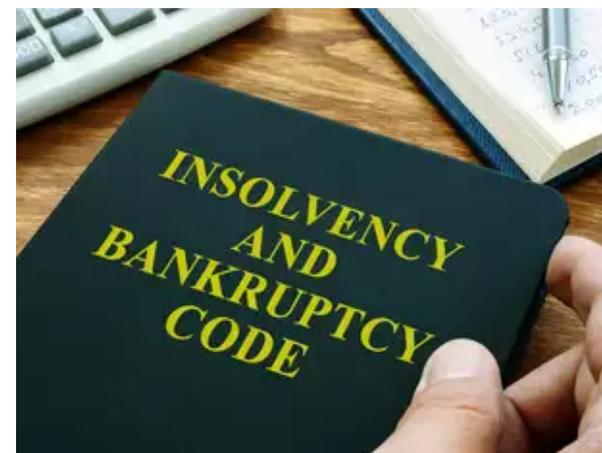
MUMBAI: As uncertainty looms over corporate India in the wake of the Covid-19 outbreak, several companies under the bankruptcy resolution process may see potential buyers pulling out, said four people involved in such negotiations.

There is a worry that large cases like IL&FS, [Dewan Housing Finance](#), [Jaypee Infra](#), Bhushan Power & Steel, Alok Industries and [Reliance Communication](#) may now take longer to execute resolution plans, they said.

Many potential buyers have reached out to the resolution professionals managing companies under bankruptcy, seeking more time to take decisions.

Buyers have adopted a wait-and-watch approach even in cases where the deals were in the final stages or bids submitted, as the Covid-19 crisis has put a question mark on valuations and viability of businesses.

“The impact of coronavirus will be highly disruptive for the insolvency industry; even the plans which were either approved or under consideration by the committee of creditors and [NCLT](#) may go back to the drawing board,” said Sumant Batra, the managing partner at law firm Kesar Dass B & Associates, which specialises in bankruptcies.



*Some of the companies that were already struggling may not even survive a prolonged business and liquidity crunch.*

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There is also an expectation that the Ministry of Corporate Affairs may request the bankruptcy tribunals to go easy on resolution timelines.

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The government on Sunday announced that bankruptcy resolution process could continue despite the ongoing 21-day national lockdown.

Under, India's Insolvency and Bankruptcy Code (IBC), bankrupt firms get up to 330 days to complete the resolution process. More than 1,900 companies are currently undergoing the resolution process.

While the waiver may help some of these companies to meet the deadlines, the lockdown will make it tough for most as the viability of their businesses has taken a hit, according to industry trackers.

Most companies have seen their cash flows drying up overnight, as cash circulation has screeched to a halt amid the lockdown and companies are unable to conduct even day-to-day operations.

"Coronavirus has led to a standstill for several companies under the IBC and all the receivables have dried up and companies are struggling with operations. We believe that the situation will have a long-term impact on the viability of the company," said Abizer Diwanji, the national leader, financial services, at EY India.

Some of the companies that were already struggling may not even survive a prolonged business and liquidity crunch.

"Something akin to a black swan event like Covid-19 impacts businesses and it makes the underlying cash flows and the ability to get them uncertain. In situations like these, it would be even harder to assess the value for a business which is already witnessing considerable stress," PwC India partner and leader-deals Sanjeev Krishan said.

Experts and lawyers involved in bankruptcy cases expect many companies to approach the bankruptcy tribunals to grant them more time to complete their resolution plans despite the lockdown waiver on IBC proceedings.

"This is an automatic breather for several companies undergoing resolution; otherwise insolvency professionals would be forced to file liquidation proceedings once the timelines collapse. Now they can pursue the resolution plans," UV Asset Reconstruction Company managing director Hari Hara Mishra said. "It would also be a very good idea to give a three-month IBC holiday to companies to avoid pile up

of bankruptcy litigation.”

There are also expectations that lenders could become more lenient, giving rise to section 12A cases under the bankruptcy code. Section 12A was inserted in the IBC in June 2018 to allow withdrawal of insolvency application by the applicant with the approval of 90% of the members in the committee of creditors.

“You could also see the bidders thinning for insolvency companies; they might seek a payment moratorium or timeline extension in places they have already submitted bids,” said Batra of Kesar Dass.

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