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Market Watch

Banks let 124 companies slip into liquidation despite resolution plans

BY SALONI SHUKLA, ET BUREAU | UPDATED: MAY 21, 2020, 11.31 PM IST

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MUMBAI: Indian banks let 124 companies slip into [liquidation](#) despite resolution plans that – at least theoretically – promised higher recoveries, data with the [Insolvency and Bankruptcy Board of India \(IBBI\)](#) showed.

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At the end of March, [insolvency](#) processes for 914 companies were closed. About 57% of the total insolvency cases closed ended in orders of liquidation, compared with 14% that ended in resolution plans.

“The code envisages maximisation of value and not price,” wrote Dr M.S.Sahoo, chairman, IBBI, in the latest newsletter released by the bankruptcy regulator. “The value improves if business is continued and its assets are used more efficiently.”

Sahoo added that efficiency could be brought in by a management change, acquisition or disposal of assets, restructuring of the company or turning around the business.

Since the inception of the [Insolvency and Bankruptcy Code](#), 396 manufacturing companies - the highest number in any segment - have been sent to liquidation. More than 200 companies ordered to be sold piecemeal were in the real estate and construction segment, while another 117 companies were in retail and wholesale trade.

Last week, the finance minister announced a complete freeze on fresh insolvency cases for up to a year. Also, coronavirus-related debt will be excluded from the definition of default. A minimum threshold to initiate insolvency proceedings was also raised to Rs 1 crore from Rs 1

lakh to benefit MSMEs. With the IBC a no-go for some time for the lenders, experts say that banks will have to build more consensus among themselves to save companies and jobs, considering the crumbling state of the Indian economy.

Experts said that banks should have to go beyond the issue of charge and collateral and be more flexible to deal with stressed accounts, in the absence of IBC.

"In the recent past, major lenders have been successful in consensus- building and getting resolution plans passed unanimously. This positive trend of a concerted approach by lenders is likely to be the new normal in the resolution of stressed assets," said Hari Hara Mishra, Director, UV ARC.

The pandemic has worsened the backlog of cases at bankruptcy tribunals across the country. At the end of December, National Company Law Tribunals had admitted 3,254 companies to be tried under the bankruptcy law. Of these, resolution plans have been approved for 190 cases and liquidation proceedings have begun in 780 cases.

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