

Miles to go for the new bankruptcy code

Good news has finally started to roll out of the refurbished bankruptcy courts. Tata Steel acquired 73% stake in the bankrupt firm Bhushan Steel for about 35,000 crore last week, making it the first major resolution of a bankruptcy case under the new Insolvency and Bankruptcy Code (IBC). Bhushan Steel was one among the 12 major accounts referred to the National Company Law Tribunal at the behest of the Reserve Bank of India last year to ease the burden of bad loans on banks. The proceeds from the acquisition will go towards settling almost two-thirds of the total outstanding liabilities of over 56,000 crore that Bhushan Steel owes banks. While it may be unwise to read too much into a single case, the Bhushan Steel resolution is nevertheless an encouraging sign for banks because they typically manage to recover only about 25% of their money from defaulters. In fact, between April 2014 and September 2017, the bad loan recovery rate of public sector banks was as low as 11%, with non-performing assets worth 2.41 lakh crore written off from their books. The Finance Ministry now expects banks to recover more than 1 lakh crore from the resolution of the other cases referred by the RBI to the NCLT. If the banks do indeed recover funds of this scale, it would considerably reduce the burden on taxpayers, who would otherwise have to foot the bill for any recapitalisation of banks. Even more important, speedy resolution would free valuable assets to be used for wealth-creation.

The resolution of one high-profile case, however, should not deflect attention from the many challenges still plaguing the bankruptcy resolution process. The IBC, as the government itself has admitted, remains a work in progress. This is a welcome piece of legislation to the extent that it subsumes a plethora of laws that confused creditors; instead it now offers a more streamlined way to deal with troubled assets. But issues such as the proposed eligibility criteria for bidders have left it bogged down and suppressed its capacity to help out creditors efficiently. Also, the strict time limit for the resolution process as mandated by the IBC is an area that has drawn much attention, and it merits further review in order to balance the twin objectives of speedy resolution and maximising recovery for the lenders. To its credit, the government has been willing to hear out suggestions. It would do well to implement the recommendations of the Insolvency Law Committee which, among other things, has vouched for relaxed bidder eligibility criteria. Going forward, amendments to the bankruptcy code should primarily be driven by the goal of maximising the sale price of stressed assets. This requires a robust market for stressed assets that is free from all kinds of entry barriers.

Receive the best of The Hindu delivered to your inbox everyday!

Please enter a valid email address.

The propriety of the Centre holding back names from the collegium's list is in question

END

Downloaded from crackIAS.com

© **Zuccess App** by crackIAS.com