

IBC OFFERS BETTER RECOVERY RATE OF 43% TO FINANCIAL CREDITORS

Lenders’ differences, legal challenges behind delay in resolutions under IBC

SUNNY VERMA
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A NUMBER of hurdles have recently delayed debt resolution at Essar Steel India Ltd, which seemed just in sight a couple of months ago. Differences among lenders, legal challenges posed by existing promoters and operational creditors are among the reasons for slowing down resolution process under the Insolvency and Bankruptcy Code (IBC), with nearly half of the cases overshooting time limits set under the law. The IBC requires a corporate insolvency resolution process (CIRP) to be completed in 180 days, which can be extended by another 90 days to a maximum of 270 days. These time limits were set in to ensure that recovery of non performing assets (NPAs) happen in a time-bound manner and banks are able to reduce the quantum of stressed assets of more than Rs 10 lakh crore. Even as there have been delays in nearly half of the cases, the IBC has offered better recovery rate of 43 per cent to financial creditors in the 93 resolution plans approved so far.

As on March 31, 2019, out of total 1143 that were undergoing resolution under the IBC, a total of 548 cases exceeded the 180-day

362 CASES SURPASS LIMIT OF 270 DAYS	
Status of CIRPs	No of CIRPs
Admitted	1858
Closed on Appeal/Review/Settled	152
Closed by withdrawal under Section 12A	91
Closed by resolution	94
Closed by resolution liquidation	378
Ongoing CIRPs	1143
>270 days	362
>180 days to <270 days	186
>90 days to <180 days	247
<90 days	348

Source: The Insolvency and Bankruptcy Board of India (IBBI)

deadline. This reflects that in nearly 48 per cent of the cases (or 548 CIRPs), resolution could not be achieved within 180 days. A total of 362 cases – or 31.67 per cent of the ongoing CIRPs – surpassed the outer limit of 270 days set out in the IBC. Lack of appropriate bids to takeover companies, differences among the lenders, legal challenges posed by existing promoters and operational creditors are among the reasons resulting in delay.

Among the first 12 large NPA cases that the banks referred to various NCLT (National Company Law Tribunal) benches, the case

of Essar Steel India Limited has been facing significant delay. The Essar Steel Asia Holding’s plea Tuesday to reject ArcelorMittal’s Rs 42,000 crore bid for Essar Steel added a fresh twist to the already stretched resolution process of the firm. While insolvency pro-

ceedings were initiated against Essar Steel India Limited in June 2017 and admitted in August 2017, it has breached the mandated 270 days resolution norm by almost a year.

Of the 12 large accounts that had combined outstanding claim of Rs 3.45 lakh crore, resolution plans were approved in six cases, including that of Essar Steel which is now facing fresh delays. The other cases are yet to successful resolution plans. In the case of Amtek Auto Ltd, for instance, the approved resolution could not be implemented and the process has now started again.

The other five large cases wherein resolution has been implemented include Electrosteel Steels Ltd acquired by Vedanta Ltd, Bhushan Steel Ltd acquired by Bannipal Steel (a Tata group subsidiary), Monnet Ispat & Energy acquired by a consortium of JSW and AION Investments Pvt Ltd, Alok Industries Ltd acquired by Reliance Industries and JM Financial Asset Reconstruction Company Ltd and Jyoti Structures acquired by a group of high net-worth individuals. The recovery rate for financial creditors ranged from a low of 17.11 per cent in case of Alok Industries to a high of 63.50 per cent in case of Bhushan Steel Ltd.

Delays in ongoing cases

notwithstanding, the IBC process has so far yielded better recovery rates when compared with the existing system of Debt Recovery Tribunals and recovery under the SARFAESI (The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest) Act.

From December 1, 2016, when provisions of CIRP kicked in till March 31, 2019, the IBC yielded successful resolution plans in 93 cases, wherein financial creditors could recovery Rs 74,497 crore out of admitted claims of Rs 1,73,359 crore – resulting in a recovery rate of 43 per cent for the financial creditors. In the existing regime of DRT/SARFAESI, banks could recover less than 20 per cent of the stuck loans with significant delays.

A senior official dealing with the IBC said since it’s an evolving law, there are bound to be some hiccups but the system is producing better results compared to previous regime. “Apart from recovery coming from resolution, you need to realise that the law has completely changes the creditor-debtor relationship. A number of companies are coming forward to banks to repay their dues for the fear of losing control of their companies, as creditors may take them to the bankruptcy court,” the official said.

MARKET WATCH

FPIs PULL OUT ₹3.2K CR IN MAY SO FAR

New Delhi: Reversing their three-month buying streak, foreign investors pulled out a net Rs 3,207 crore from the Indian capital markets in the first seven trading sessions of May amid the US-China trade tensions and uncertainty over the election results. **PTI**

Bank deposits growing, not slowing: RBI report

ENS ECONOMIC BUREAU
MUMBAI, MAY 12

CONTRARY TO the widely held perception of slowing deposit growth, there has been an acceleration building up from the beginning of 2018, after a 53-year low of 3 per cent in November 2017, the Reserve Bank of India has said.

“At end-March 2019, deposit growth at 10 per cent was, in fact, marginally higher than its 15-year trend. Moreover, the decomposition of year-on-year deposit growth shows that the recent acceleration is driven by momentum, despite unfavourable base effects,” the RBI said in a report on bank deposits.

Notwithstanding this improvement, it is noteworthy that the recent pick-up is occurring against the backdrop of a secular deceleration that has set in since August 2009, barring the demonetisation driven spike during November-December 2016, the RBI report said.

Outstanding deposits of scheduled commercial banks (SCBs) at Rs 125,72,600 crore as on March 31, 2019 accounted for 128.7 per cent of outstanding bank credit (lower than 132.5 per cent a year ago), reflecting the tightening of financial conditions on account of low deposit growth.

“Bank deposits remain an

MOMENTUM DRIVEN ACCELERATION

■ At end-March 2019, deposit growth at 10 per cent was, in fact, marginally higher than its 15-year trend

■ Moreover, the decomposition of year-on-year deposit growth shows that the recent acceleration is driven by momentum, despite unfavourable base effects

■ Deposit growth is picking up in recent months in a cyclical upturn since Dec 2018, which is overwhelming a trend slowdown that has been underway since October 2009

important part of the financial savings of households and key to the financing of bank lending,” it said. Deposit growth is picking up in recent months in a cyclical upturn since December 2018, which is overwhelming a trend slowdown that has been underway since October 2009.

“The latter warrants policy consideration since deposit mobilisation is fundamental to India’s bank-based system of fi-

nancial intermediation,” the report said.

According to the RBI report, empirical evidence puts forward several interesting facts about the behaviour of bank deposits.

“It underscores the income as its most important determinant, both in the short-and in the long-run. Second, interest rate matters for deposit mobilisation but only at the margin. Third, financial inclusion has a boosting effect on deposit mobilisation over the long-run suggesting expansion of bank branches in unbanked areas,” it said.

“Substitution effects associated with Sensex returns for deposit growth are limited to the short-run, warranting a careful appraisal of regulatory reforms and tax arbitrage, even as efforts need to be intensified to make both more market determined,” the report said.

“Similar to Sensex return, small savings substitute bank deposits in the short-run but supplement deposits in the long-run, reflecting that limits on income tax exemption eventually evens out substitution effects and allow income to be the key determinant of both in the long-run,” the RBI said.

Therefore, accelerating the rate of growth of the economy and disposable incomes holds the key to higher deposit mobilisation by the banking system, the RBI said.

INTERVIEW: DIRECTOR, INDIA & SOUTH ASIA, ENTERPRISE IRELAND

‘Jet Airways collapse a short-term shock for Irish leasing companies’

ONE OF the centres for aircraft leasing, companies from Ireland made up a bulk of lessors to India’s oldest private airline Jet Airways, which temporarily suspended operations last month. However, DAVID FLOOD, director of India and South Asia for Enterprise Ireland – a government organisation responsible for the development and growth of Irish enterprises in world markets – said in an interview with PRANAV MUKUL and SANDEEP SINGH that the Jet Airways episode is being seen as a short blip in a market otherwise poised to grow. He also spoke about the changing stance of nations towards protectionist trade policies and the challenges Irish companies face while doing business in India. Edited excerpts:

A number of Irish aircraft leasing companies are present in India...

Of the top 15 aircraft leasing companies in the world, 14 have some presence in Ireland – either headquarter or branch office. Over 50-60 per cent of all aircraft leased around the world are coming from offices based in Ireland.

Has there been an impact in sentiment for aircraft lessors due to the Jet Airways episode?

I think the aircraft leasing companies look at this as a long-term play. When they are looking at the Indian market, they are looking at it as something that is growing at 10 per cent a year in terms of aviation. At the moment the fleet of Indian airlines is around 700 aircraft and the projections are huge – over 2,000 aircraft within 5-10 years.

So, yes, Jet Airways is a short-term shock, but it was seen as coming and companies made preparations and already aircraft are being re-leased to other companies. The slack has already been taken off the Indian market. Overall the sentiment is that India is a very positive story. It is very sad that Jet has collapsed but in the longer term, the prospects are very positive. Airline industry is notoriously cyclical. We have seen with our own national carrier Aer Lingus has gone through highs and lows and every business goes through this. But if you look at the trajectory over 20 years, the number of aircraft is going up, the number of passengers is going up. So if you can get your business model correct, then you have a good prod-



“Where the challenges arise are really around understanding the rules and regulations. So, bureaucracy in India – understanding how to set up a new legal entity here requires expertise. So, how we get around that is to work with local providers to understand those regulations and we connect them to our client base”

DAVID FLOOD,
DIRECTOR OF INDIA AND SOUTH ASIA, ENTERPRISE IRELAND

uct to sell.

How do you see growing protectionism across the world?

Clearly there has been a shift in the attitude in many countries around free trade and the advantages of free trade.

There has been a move towards protectionist stance in certain countries and that is a concern for us and we will continue to fight at EU level and World Trade Organization to maintain open borders and open trade and as part of the EU we have access to a market of 500 million, which is a fantastic position to be in. In India, (the free trade negotiations) are a bit slow. Negotiations have been going on for 8-9 years and we are yet to see a breakthrough because there are certain areas where there are sensitivities.

Do you see an India-EU free trade agreement becoming a reality?

I don’t see why not. There is certain move on protectionist anti-globalisation points of view at the moment. Ten years ago, I would have said that this would have never happened. Eventually, the trend to me seems to be towards more free trade. Every time we have seen protectionism rise, like in the 1930s, it has been disastrous. In the longer term, people realise that free trade actually brings more wealth to people.

What are the challenges in India that Irish companies have to face while doing business here?

India offers lots of opportunities and challenges for Irish

BRIEFLY

Honda to continue selling diesel models

New Delhi: Honda will continue to offer diesel models in India even after BS-VI emission norms kick in. “...We believe the demand for diesel will not vanish immediately. Therefore, we will continue to offer the diesel models in line with market demand and gradually move towards future alternatives,” HCLIL Senior Vice President and Director (Marketing & Sales) Rajesh Goel said.

Torrent recalls drug bottles from the US

New Delhi: Drug firm Torrent Pharma Inc is recalling over 8.82 lakh bottles of Losartan Potassium tablets, used for treatment of hypertension, from the US and Puerto Rico markets, as per a report of the US health regulator.

EV adoption: Ola to focus on 2, 3-wheelers

New Delhi: Expecting rapid adoption of four-wheeler electric vehicles at a mass scale to take time, ride-hailing firm Ola is betting big on two and three-wheelers for its electric mobility drive, Ola Electric Mobility co-founder Anand Shah said. **PTI**

Trump to China: Trade deal now or it will be ‘far worse’ after 2020

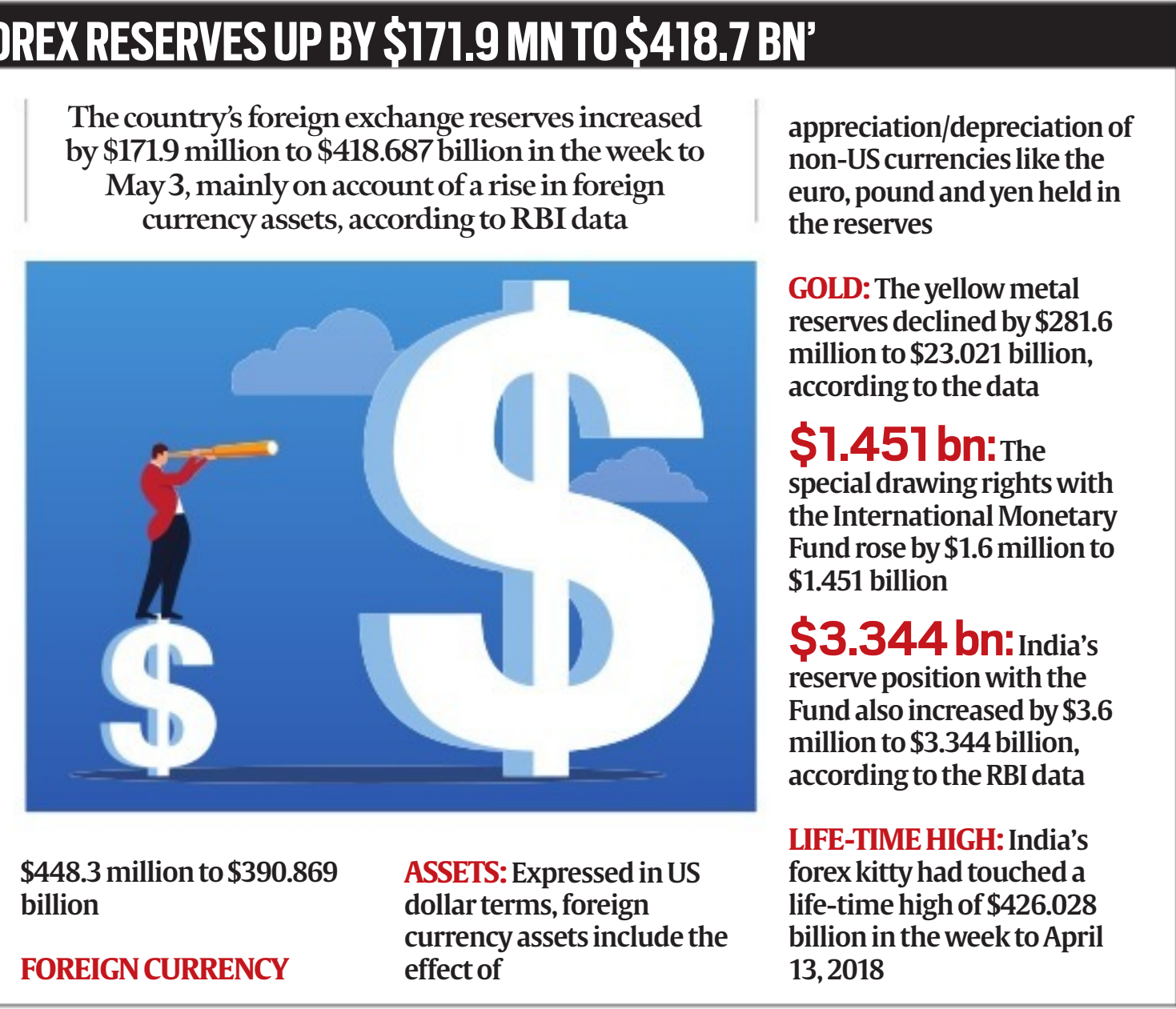
PRESSTRUST OF INDIA
WASHINGTON, MAY 12

US PRESIDENT Donald Trump warned China on Saturday that it should strike a trade deal with the United States now, otherwise an agreement would be “far worse for them if it has to be negotiated in my second term.”

Washington and Beijing are locked in a trade battle that has seen mounting tariffs, sparking fears the dispute will damage the global economy. Two days of talks ended Friday with no deal. China’s top negotiator said the two sides would meet again in Beijing at an unspecified date, but warned that China would make no concessions on “important principles.” “I think that China felt they

were being beaten so badly in the recent negotiation that they may as well wait around for the next election, 2020, to see if they could get lucky & have a Democrat win – in which case they would continue to rip-off the USA for \$500 Billion a year,” Trump said in a tweet Saturday.

“The only problem is that they know I am going to win (best economy & employment numbers in US history, & much more), and the deal will become far worse for them if it has to be negotiated in my second term. Would be wise for them to act now, but love collecting BIG TARIFFS!” ing goods in the United States. Trump had accused Beijing of reneging on its commitments in trade talks and ordered new punitive duties, which took effect Friday.



Q4FY19 earnings season: Sales slow, profits fall

ENS ECONOMIC BUREAU
MUMBAI, MAY 12

THE EARNINGS season has so far been an extremely dull one, with most companies reporting muted top line growth and a fall in net profits. Demand is clearly very weak; companies have been unable to hold on to their operating margins and even pushing through volumes has been difficult.

With purchasing power being cramped, the competitive intensity has gone up. It’s worrying that the Hindustan Unilever management mentioned the R word in its posts results commentary. But the economy is

Demand is clearly very weak; companies have been unable to hold on to their operating margins

slowing as seen in the factory output for March, which contracted, the first time in 23 months. The best news so far has been the fairly good growth in order inflows at Larsen & Toubro which increased 14 per cent year-on-year in Q4FY19.

But many of the other heavyweights – Bharti Airtel, Infosys, Maruti Suzuki and Hindustan Unilever – posted very ordinary numbers.

Indeed, the aggregate numbers don’t come as a surprise. Net profits for a sample of 334

companies (excluding banks and financials) are down 18 per cent y-o-y on the back of a contraction in operating profit margins of nearly 300 basis points.

Most managements appear to be in despair and hoping that government spends on infrastructure and work programmes will push up incomes.

The growth in the top line – a shade under 12 per cent y-o-y – is half that in the previous three quarters. For most businesses, either volumes or realisations have been subdued. At TVS

Motors, volumes rose just 2.1 per cent y-o-y in Q4FY19, while HUL reported its lowest volume growth in six quarters at 7 per cent y-o-y. Britannia posted a volume growth of just 7 per cent y-o-y while volumes at CEAT declined by around 1 per cent y-o-y due to decline in both the OEM and replacement segments.

ACC’s volume growth of 5 per cent y-o-y in the quarter was slower than the industry level growth of around 8-10 per cent, analysts pointed out.

At HeroMotocorp, volumes fell 11 per cent y-o-y in a subdued industry demand environment and partly because of inventories needed to be cleared post the dull festive season. **FE**

Imminent crisis in NBFC sector: Srinivas

PRESSTRUST OF INDIA
NEW DELHI, MAY 12

THERE IS AN “imminent crisis” in the non-banking financial companies (NBFCs) sector as misadventures by some large entities and credit squeeze present a perfect recipe for disaster, a senior government official has said.

In recent months, the country’s financial system has been grappling with multiple woes in the wake of the turmoil at diversified IL&FS group as well as debt defaults by some other large entities. In an interview to PTI, Corporate Affairs Secretary Injeti Srinivas said the NBFC sector is facing issues of credit squeeze, over-leveraging and misadventures by some large entities.

“There is an imminent crisis in the NBFC sector. There is a credit squeeze, over-leveraging, excessive concentration, massive mismatch between assets and liabilities, coupled with some misadventures by some very large entities, which is a perfect recipe for disaster,” Srinivas said.

However, he added that “responsible” companies are managing the risk well and are not facing such a dire situation. He said corporate governance in India is being put to test. “It is a defining moment. The way things are moving, in the medium to long term it will be for the good. In the short term, there can be turbulence,” he said.

“There are many companies in the country that have strong corporate governance. They take risks but manage them as well,” he said.

‘Trump, Xi likely to meet in Japan in June’

Washington: US President Donald Trump and his Chinese counterpart Xi Jinping are likely to meet during a G20 summit in Japan at the end of June and discuss trade, White House economic adviser Larry Kudlow said. He also told Fox News that the US needs to see China agree to “very strong” enforcement provisions for an eventual deal and said the sticking point was Beijing’s reluctance to put agreed changes into law. **REUTERS**