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Insolvency Proceedings against Bhushan Steel

What is the issue?

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- Insolvency and bankruptcy code (IBC 2016) has yielded its first success.

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- But there are many issues that need to be sorted out.

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What is the Bhushan Steel Case about?

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- Bhushan Steel was one among the 12 major accounts referred to the “National Company Law Tribunal” (NCLT) at the behest of the RBI last year.

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- These accounts were the biggest of the Non-Performing Assets (NPA's) that was plaguing the various banks.

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- Recently, Tata Steel recently acquired 73% stake in the bankrupt firm Bhushan Steel for about Rs. 35,000 crore.

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- This was through a bankruptcy case under IBC, and hence this becomes the 1st major resolution under the act.

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- The proceeds from the acquisition will be used to settle about two-third of the Rs. 56,000 crores that Bhushan Steel owes banks.

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What are the positives that can be driven from this case?

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- While the Bhushan resolution is just 1 case that managed more than about 67% recovery, it is nevertheless an encouraging sign for banks.
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- Notably, before the launch of IBC, if assets get stressed, banks were typically able to recover just about 25% of their dues.
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- More significantly, between 2014-2017 bad loan recovery rate of public sector banks was just 11%, and about 2.4 lakh crores were simply written off.
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- More than 1 lakh crore is expected to be recovered in the near future through other cases referred by the RBI to the NCLT.
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- If the banks do indeed recover funds of this scale, it would reduce the burden on the government, as pressures for bank recapitalisation will ease.
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- Additionally, speedy resolution would also free valuable assets that can be employed for economic production.
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What are the lingering concerns that need further pondering?

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- IBC legislation has subsumed a plethora of laws that confused creditors and has streamlined the way to deal with troubled assets.
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- But issues such as the proposed eligibility criteria for bidders have left it bogged down and suppressed its capacity to help out creditors efficiently.
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- The Insolvency Law Committee has vouched for relaxation of 'bidder eligibility criteria' in order to enhance participation, which needs to be considered.
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- Also, strict time limit for resolution as mandated by IBC merits review in order to balance the objectives of speedy resolution and maximising asset recovery.
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Source: The Hindu

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