

Bankruptcy law to help debt-heavy companies

The World Bank's Doing Business sub-index on 'resolving insolvency' ranks India quite low at 136, and India's rank in 'enforcing contracts' is 170

BS Reporter | Mumbai November 06, 2015 Last Updated at 00:39 IST



Highly leveraged Indian companies, which are unable to repay bank loans in time, will get help from the new bankruptcy law. The norms will help restructure operations faster and even pave the way for a change in management to revive operations.

Chief executives say bankruptcy is a major challenge as several projects have become non-viable, especially in the infrastructure sector due to internal and external reasons. Due to this, Indian banks are inundated with bad loans which have blocked capital for creation of new assets.

Most of the existing laws have failed to either help lenders in getting their funds back or the companies in restructuring their operations. The World Bank's Doing Business sub-index on 'resolving insolvency' ranks India quite low at 136, and India's rank in 'enforcing contracts' is 170.

"Clearly, the current mechanism under SICA, 1985 has not been very effective for revival or liquidation of distress companies. While the draft Bill needs to be studied in detail, a robust bankruptcy code in line with international norms will go a long way in timely resolution of problems associated with the financially stressed businesses. It will enhance ease of doing business in India which is a focus area for the government," said Sushil Agarwal, Wholetime director of Grasim.

In the past few years, many Indian companies, including Kingfisher Airlines, shut shop, taking down bank funds worth Rs 7,000 crore with them. Government-owned banks kept pumping money into the airline in equity as well as debt, in spite of its sagging financial conditions. The Central Bureau of Investigation is currently probing on what basis government-owned banks lent money to the airline. However, due to a lack of a bankruptcy law, the banks failed to change the management of the airline in time. "We only need to have checks wherein

inefficient management or unscrupulous promoters underperform knowing well that a resolution is in the offing. All such companies would have to be scrutinised well by a competent authority before a resuscitation package is provided," said D R Dogra, CEO and managing director of CARE Ratings.

Kingfisher is not alone. There are numerous examples of companies failing to meet their loan commitments due to mismanagement or adverse external conditions.