Resolving Power Sector NPAs - II

Why in news?

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- The Allahabad High Court has decided to deny interim relief to power companies from the RBI’s February 12 circular.
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- Click here to know more on the case.
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What is the RBI's directive?

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- The RBI circular sets a 180-day deadline for the resolution of all non-performing assets.
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- It requires banks to finalise a resolution plan within this.
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- This is in case of a default on large accounts of Rs 20 billion or more.
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- Failing this, insolvency proceedings will have to be invoked against the defaulter.
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- The assets would be taken to the National Company Law Tribunal (NCLT).
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- The central bank also introduced the concept of a one-day default.
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- Under this, banks have to identify incipient stress even when repayments are overdue by a day.
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What is the petition?

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- Nearly 70 large companies with a debt of around Rs 3.8 trillion would have to face Insolvency and Bankruptcy Code proceedings.
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- Three-fourths of this debt pertains to a handful of power producers.
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- As many as 34 power plants, with a combined capacity of 39 GW, have been identified as stressed assets.
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- Power producers were not the only ones hesitant on submitting to the IBC process.
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- The government and even the lenders, mostly public sector banks, were also not keen on implementing the RBI circular.
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- They argued that the power sector’s problems had more to do with external factors.
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Why is the Court's decision significant?

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- It is RBI's discretion to decide whether any particular sector deserves regulatory exceptions.
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- In this case, it has decided against granting any exception, which is a sound, rule-based approach.
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- Any judicial intervention would have sent a wrong signal to other defaulters.
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- They would have then started seeking judicial reprieve from the RBI’s circulars.
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- So the high court has consciously avoided a precedent that could have been misused.
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- It has done its bit by ensuring the RBI’s position as an independent regulator.
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- It is not yet clear whether the power producers will move the Supreme Court.
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- Till that happens, the RBI deadline stands and banks are bound to start IBC

proceedings.
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Source: Business Standard

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