Setback in clearing Bad Loans

Why in news?

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Essar Steel company has moved to the Gujarat High Court regarding the insolvency case.

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What is the case about?

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- RBI had recently identified a clutch of 12 accounts—this included Essar Steel—that were to be referred by banks to the National Company Law Tribunal (NCLT).
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- RBI made such a decision because lenders had exhausted all other options to recover their dues.
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- Even before the NCLT could admit the insolvency case against Essar Steel, the company has moved the Court.
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- It has argued RBI selection of 12 stressed exposures to be resolved via the IBC (Insolvency and Bankruptcy Code) is arbitrary.
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How RBI got these powers?

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- An ordinance to amend the Banking Regulation Act of 1949 has been issued recently.
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- This empowers the RBI to enforce expeditious resolution of NPAs of banks.
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- The Union government can direct the RBI to take necessary steps to initiate the NPA resolution process once a default has been established.

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- The earlier provisions of the Banking Regulation Act did not allow this.
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What will be the impact of the case?

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- Though the promoters may argue RBI’s selection is arbitrary, the fact is the company is unable to service its loans.
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- There is a lot of taxpayer money at stake i.e 2 lakh crore in the 12 accounts.
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- It would be a big setback for the initiative taken by the government and RBI to solve the bad loans problem as the case was not even admitted to NCLT.
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What should be done?

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- The fact that these firms were able to borrow so much, even after being unable to service their loans, shows that the banks were lax in their evaluation and also helped evergreen loans.
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- The liberal norms that were originally intended to promote industry and growth have ended up making the banks bankrupt.
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- The High Court should dispose off the case quickly so that the NCLT can admit the case and subsequently the lenders can recover their loans.
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- Quick trial will also discourage other promoters to approach the court for similar relief.
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- Norms for blacklisting defaulters should be codified to prevent the companies being ending up with such a huge debt.
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Quick Facts

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NPA

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- A nonperforming asset (NPA) refers to a classification for that are in default or are in arrears on scheduled payments of principal or interest.
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- In most cases, debt is classified as nonperforming when loan payments have not been made for a period of 90 days.
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NCLT

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- The National Company Law Tribunal (NCLT) is a quasi-judicial body in India that adjudicates issues relating to companies in India.
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- It was established under the Companies Act 2013 and was constituted on 1 June 2016.
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Source: Financial Express

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