Business Standard

There is a need for second-generation IBC reforms, says Amitabh Kant

India's G20 Sherpa called for opening doors to non-sovereign or private players to deploy technology for improved court management

Ruchika Chitravanshi | New Delhi

Amitabh Kant,G20 Sherpa & Former CEO, NITI Aayog, Goverment Of India. (Photo: Kamlesh Pednekar)

The Insolvency and Bankruptcy Code (IBC) is in need of second-generation reforms to acknowledge concerns regarding the present functioning of the Code, Amitabh Kant, G20 Sherpa and former CEO of Niti Aayog, said on Tuesday.

Speaking at a lecture during the annual day function of Insolvency and Bankruptcy Board of India (IBBI), Kant noted that insolvency resolution at the National Company Law Tribunal (NCLT) averaged 716 days in the last financial years, up from 654 days in FY23. He highlighted that the average time taken for the admission of cases increased from 468 days in FY21 to 650 days in FY22.

The rate of recovery for the creditors as percentage of admitted claims, Kant said, fell to 27 per cent in FY24 from 36 per cent in the previous year, pulling down the cumulative recovery since the IBC was introduced in 2016 to 32 per cent.

“Justice delayed is justice denied; we need a breakthrough idea to fix this,” Kant said.

India’s G20 Sherpa called for opening doors for non-sovereign or private players to deploy technology for improved court management. He said privatisation of passport Seva Kendras has resulted in a seamless process, and similar models could work for court processes.

“With investments in private capital and future-ready innovations, judicial process reengineering could enhance the administration of justice in India, thus significantly reducing arrears,” Kant said.

He added that substantive changes to the IBC on issues of cross-border insolvency, creditor rights, sector-specific nuances, and pre-packs are necessary.

“I understand that a comprehensive review of IBC was undertaken last year, and amendments are under consideration of the government. These amendments are expected to reduce delays and increase the recovery to creditors,” Kant said.

Noting that the IBC has marked a significant shift in India's approach to financial distress, Kant said that NPAs are now at a historic low, bank balance sheets are robust, credit is growing at a healthy clip, and growth is back on track.

Stressing the need for IBC reforms, Kant said: “The IBC was successful because the entire ecosystem and the institutional infrastructure — from regulators, including the newly created IBBI, the legislature, the courts, the banks, and the market — came together and played their part.”

Speaking on the occasion, IBBI Chairperson Ravi Mittal said that 45 per cent of the total resolutions in IBC have happened in the last two years.

He said that IBC has provided more money in the hands of creditors to lend more. “Unproductive assets of companies have become productive. This is what IBC has done in the last few years,” Mittal said.

Nageswaran lauds IBC

IBC is not responsible for the delay it takes for bringing cases to the resolution process and the extent of creditor recovery does not reflect the efficiency of insolvency services, Cheif Economic Advisor (CEA) V Anantha Nageswaran said in his special address at the function.

"Recovery only reflects the extent of value erosion by the time the companies enter the resolution process," Nageswaran said, citing examples of companies that entered the process with no assets and those who had 100 per cent recovery.

Nageswaran said, "The next step towards bankruptcy reform is to improve operational efficiencies to speed up the resolution process. This is especially important for MSMEs, for whom legal cost can prove to be substantial."

He said improving efficiencies in the system comes down to using innovative resolution rules such as pre-pack arrangements for MSMEs, interdisciplinary capacity-building of resolution professionals, and minimizing judiciary delays in proceedings.

The CEA said that studies show that the market has acknowledged the potential of firms in the post-resolution period. "The intrinsic merit of these firms remains and is restored in the resolution process."

He said that credit busts are always as inevitable as credit booms, but as and when the next credit bust occurs, it will make one realise the value of the IBC process that has been put in place.

First Published: Oct 01 2024 | 7:45 PM IST

Page URL :https://www.business-standard.com/industry/news/there-is-a-need-for-second-generation-ibc-reforms-says-amitabh-kant-124100101199_1.html