INDIALAW

ESSAR STEEL RESOLUTION Benchmark SC verdict to provide relief to lenders, comfort investors

Global Investors may Make a Beeline for Bad Loans

Saikat Das & Indulal PM

Mumbai: The Supreme Court judgement in favour of the world's top steel maker ArcelorMittal to take control of Essar Steel provides a new lease of life for India's distressed asset market with an estimated annual fund flow of $3 billion, bankers and analysts said.

International investors were watching this case closely, as they fight against long loans and the judgment clearly lifted global investor sentiment they said.

"With international buyers are lined up, the sellers should now come up," said Jayesh Mehta, country treasurer, Bank of America.

"With the Essar Steel judgment out, it has now become easier for distressed transactions to happen. Now it needs to be seen how banks open up to sell their sticky assets," he said.

The verdict from the top court will also provide much-awaited relief to the country's case of bad debt issues of the world in recent times. "The Essar mandate clearly has lifted investment sentiment for global investors seeking opportunities in India," said Rashesh Shah, CEO, Edelweiss group. But runs a stressed asset fund of $1.5 billion. We are expecting $2-3 billion global inflows to own local stressed assets annually from now," he said.

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Latest SC verdict is said to have short-circuited legal wrangling among creditors and expected to accelerate resolutions

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"Essar judgement clearly demarcates limits of judicial interference over the proceedings relating into more certainty and conclusiveness," said Shijuti Vaghul, senior partner, IndiaLaw LLP. "This will attract serious foreign investors in the country and will set to rest the perceived judicial interference significantly impaired insolvency proceedings," he added.

The latest Supreme Court verdict is said to have lessened legal wrangling between creditors and expected to accelerate resolutions. The Committee of Creditors' authority is also established. The Rules promoted Essar Steel was admitted to the National Company Law Tribunal, Ahmedabad, in August 2017. It was under protracted litigation and work deadline, SC said in its judgment. The Essar judgement has upheld the sanctity of a capital structure, said Rahul Chaswla, managing director at Deutsche Bank. The IBC (Insolvency and Bankruptcy Code) law and its constituent authority have been reaffirmed. Both these will give belief in and robustness to the law and buyers of distressed paper will now have more courage to bid."

Earlier in the year, Deutsche Bank AG set up a unit in India to buy and recover bad debt. Deutsche Bank AG set up a unit in India to buy and recover bad debt. Recommendations for broad basing investors that can buy INR distressed paper can be implemented quickly then market transactions will increase," said Chawla. A task force appointed by the Reserve Bank of India (RBI) had a self-regulatory body to develop a suitable benchmarks for trading corporate loans in the second-ary market.

Such expected bout of fund flows would help the sector deal with soured debt.

"The business of non-performing assets needs both capital and the ability to resolve bad loans," said Vaghul, adding that India is facing one of the worst bad loan mess in the world as more than 3.4% of total loans in India's banking system may be under stress on top of the 9.6% bad debt ratio as of June, the highest among major economies, according to Credit Suisse estimates.

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