



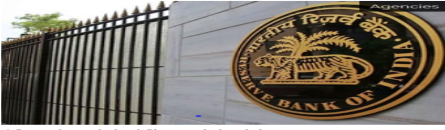
Distressed debt market likely to dry up with RBI recast plan

By Saikat Das & Indulal PM, ET Bureau - Last Updated: Sep 18, 2020, 09:08 PM IST

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Synopsis

The distressed asset market, which witnessed deals estimated in the range of Rs 60,000-65,000 crore in FY20, is almost non-existent this year so far, said people involved in distressed asset sale. This fiscal year, there have been negligible sales.



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fallout of the plan.

MUMBAI: The allure of India's \$260-billion distressed **debt** market is dimming with **the Kamath Committee** loan recommendations coming into play, as asset reconstruction companies (ARC) will likely face hurdles in executing transactions.

The market for distressed assets may not revive for at least six months as bankers and investors grapple with the

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"The recent restructuring scheme may lead to assets not becoming NPAs," said **Vishal Kampani** – Managing Director, **JM Financial Group** that also runs an asset reconstruction company. "We'll have to watch this space over the next 12 months. There will be a slowdown. No one would want to become non-performing assets. One will work with the banks to restructure."

After the global financial crisis, assets were restructured. Some couldn't survive and consequently the ARC opportunity started taking shape in 2013.

"Next few months this distressed market may see little activity amid a pandemic economy," said Rajesh N Gupta, managing partner at SNG & Partners. "However, there could be a plethora of opportunities for investors at a later stage as businesses have already affected even before the pandemic and are getting severely impacted due to Covid-19. The valuations will be realistic and foreign funds are likely to be aggressive, he said."

"Post-Covid, the distressed debt market has witnessed a significant slowdown," said Hari Hara Mishra, Director, UV ARC Ltd. "However, after last date of invocation of resolution under CoVID framework by December 31st, part of the pool of assets not covered therein and other ineligible assets under the framework may find their way to the distressed debt market. Recovery from other mechanisms is time consuming and continuance of NPAs in banks' books will put pressure on balance sheets of banks."

S&P Global Ratings predicts that Indian banks' NPA-to-loan book ratio could spike by around 50% in the current fiscal year.

The experience on restructuring has not been a pleasant one; with peak standard restructured assets at 6% in FY15. Most of that slipped to non-performing categories, show a report by Indian Ratings.

"A time-bound recast with well defined entry barrier can help the overall economy. The lack of such a mechanism may only bring troubles. On a longer term, this will result in a spike in NPAs and deteriorate the low resolution incidence in the ARC industry," said Shiju P Veetil, Sr Partner, IndiaLaw LLP.