

03 APRIL 2019

Supreme court quash RBI's circular on loan defaulters

In News:

Supreme Court quashed the RBI's February 12, 2018 circular, which directed banks to move against defaulters under the Insolvency and Banking Code (IBC) on their failure to pay up within 180 days from March 1, 2018.

In Brief:

February 12 Circular

Early identification and reporting of stress

As per the RBI circular, lenders shall identify incipient stress in loan accounts, immediately on default, by classifying stressed assets as special mention accounts (SMA) as per the following categories:

SMA Sub-categories	Basis for classification - Principal or interest payment or any other amount wholly or partly overdue between
SMA-0	1-30 days
SMA-1	31-60 days
SMA-2	61-90 days

The RBI said that lenders shall report credit information, including classification of an account as SMA to Central Repository of Information on Large Credits (CRILC) on all borrower entities having aggregate exposure of Rs 50 million (Rs 5 crore) and above with them.

The CRILC-Main Report will now be submitted on a monthly basis with effect from April 1, 2018.

In addition, the lenders shall report to CRILC, all borrower entities in default (with aggregate exposure of Rs 5 crore and above), on a weekly basis, at the close of business on every Friday.

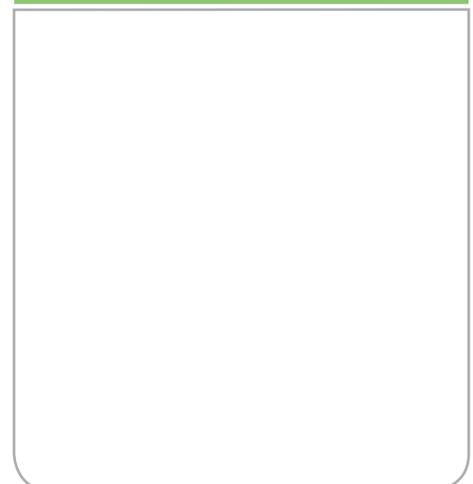
If Friday happens to be a holiday in that particular week then on the preceding working day. The first such weekly report shall be submitted for the week ending February 23.

Timelines for large accounts

In respect of accounts with aggregate exposure of the lenders at Rs 2,000 crore and above, on or after March 1 (Reference date), including accounts where resolution may have been initiated under any of the existing schemes as well as accounts classified as restructured standard assets which are currently in respective specified periods, the Resolution Plan (RP) shall be implemented as per following timelines.

i) If in default as on the reference date, then 180 days from the reference

Note



date.

ii) If in default after the reference date, then 180 days from the date of first such default.

Immediate Resolution Plan

The central bank has asked all lenders to put in place Board-approved policies for resolution of stressed assets under this framework, including the timelines for resolution.

As soon as there is a default in the borrower entity's account with any lender, all lenders (singly or jointly) shall initiate steps to cure the default.

As per the RBI, the resolution plan (RP) may involve any actions / plans / reorganization including, but not limited to, regularisation of the account by payment of all over dues by the borrower entity, sale of the exposures to other entities / investors, change in ownership, or restructuring.

Supervision from RBI

RBI said that if there is any failure from the lenders in meeting the prescribed timelines or any actions by lenders with an intent to conceal the actual status of accounts or evergreen the stressed accounts, will be subjected to stringent supervisory/enforcement actions.

What is NPA as per RBI?

Non-Performing assets in respect to banks are defined as the loans on which interest or principle is not being paid for 90 days.

However, in terms of Agriculture / Farm Loans; the NPA is defined as under:

- For short duration crop if the loan (instalment / interest) is not paid for 2 crop seasons it would be termed as a NPA.
- For Long Duration Crops, the above would be 1 Crop season from the due date

NPAs and Stressed Assets

- * **Stressed Assets** – It is a broader term and comprises of NPAs, restructured loans and written off assets.
- * **NPAs (Non-performing Assets)** – A loan whose interest/instalments has not been paid for more than 90 days.
- * **Restructured Loans** – assets/loans which have been restructured by giving a longer duration for repayment, lowering interest or by converting them to equity.
- * **Written off Assets** – assets/loans which aren't counted as dues. They are compensated through some other way
- * **Strategic Debt Restructuring (SDR)** – consortium of lenders converts a part of their loan in an ailing company into equity, with the consortium owning at least 51 per cent stake

Note

What is IBC?

Insolvency and Bankruptcy Code, 2016 is considered as one of the biggest insolvency reforms in the economic history of India.

This was enacted for reorganization and insolvency resolution of corporate



persons, partnership firms and individuals in a time bound manner for maximization of the value of assets of such persons.

Background

The era before IBC had various scattered laws relating to insolvency and bankruptcy which caused inadequate and ineffective results with undue delays. For example,

Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act SARFAESI –for security enforcement.

The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 (RDDBFI) for debt recovery by banks and financial institutions.

Companies Act for liquidation and winding up of the company.

Ineffective implementation, conflict in one of these laws and the time-consuming procedure in the aforementioned laws, made the Bankruptcy Law Reform Committee draft and introduce Insolvency and Bankruptcy Law bill.

Objectives of IBC

- Consolidate and amend all existing insolvency laws in India.
- To simplify and expedite the Insolvency and Bankruptcy Proceedings in India.
- To protect the interest of creditors including stakeholders in a company.
- To revive the company in a time-bound manner.
- To promote entrepreneurship.
- To get the necessary relief to the creditors and consequently increase the credit supply in the economy.
- To work out a new and timely recovery procedure to be adopted by the banks, financial institutions or individuals.
- To set up an Insolvency and Bankruptcy Board of India.
- Maximization of the value of assets of corporate persons.

Key aspects of the Insolvency and Bankruptcy Code

- IBC proposes a paradigm shift from the existing 'Debtor in possession' to a 'Creditor in control' regime.
- IBC aims at consolidating all existing insolvency related laws as well as amending multiple legislation including the Companies Act.
- The code aims to resolve insolvencies in a strict time-bound manner - the evaluation and viability determination must be completed within 180 days.
- Moratorium period of 180 days (extendable up to 270 days) for the Company. For startups and small companies the resolution time period is 90 days which can be extended by 45 days.
- Introduce a qualified insolvency professional (IP) as intermediaries to oversee the Process
- Establishment of Insolvency and Bankruptcy board as an independent body for the administration and governance of Insolvency & bankruptcy Law; and Information Utilities as a depository of financial information.

Note

The success of IBC

Burgeoning NPAs



- 21 PSU banks had combined gross NPAs of Rs 7.3 lakh crore at the end of September 2017 quarter. This was a growth of 27% as compared to 2016 quarter.

How has IBC helped?

- Due to the institution of IBC, we have seen that many business entities are paying up front before being declared insolvent. The success of the act lies in the fact that many cases have been resolved even before it was referred to NCLT.
- 4452 cases were dismissed at the pre-admission stage. Hence, it shows the effectiveness of IBC.
- Presently, there are 1332 cases before NCLT.
- Realization by creditors around Rs 80,000cr in resolution cases.
- Banks recovered Rs 5.28 lakh crore in 2017-18, compared to just Rs 38500 cr in 2016-17.
- The maximum amount recovered was Rs 4, 92,500 cr from 21 companies.
- 12 big cases are likely to be resolved this year, and the realization in these cases is expected to be around Rs 70000 Cr.

Pampadum Shola National Park

Why in news?

- A massive fire breaks out at the Kurinji reserve area and the adjoining Pampadum Shola National Park.

About Pampadum Shola National Park:

- It is the smallest national park in Kerala located in the Idukki district.
- It is a part of Palani hills.
- The keystone species here is the highly elusive and endangered, endemic small carnivore - the Nilgiri marten.
- Other notable animals found here are Elephants, Buffaloes, Lion tailed macaque, guar and Nilgiri langurs.



NILGIRI MARTEN (ENDANGERED)



Mukundara Hills Tiger Reserve

Why in news?

- Recently a massive fire broke out at an enclosure of Mukundara Hills Tiger reserve.

About Mukundra Hills Tiger Reserve:

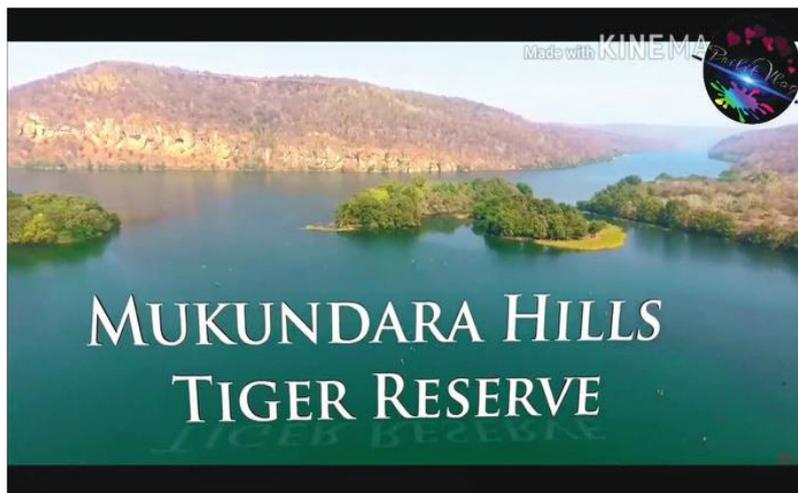
- It is the third tiger reserve in Rajasthan when it was declared so in 2013.

Note



- The other two tiger reserves in Rajasthan are Ranthambore and Sariska.
- The Mukundara Hills covers existing Darrah sanctuary, Jawahar Sagar Sanctuary and Chambal Sanctuary, all in Rajasthan.
- Recently two tigers have been shifted to it from the Ranthambore Tiger reserve.

Enzyme that breaks bacterial cell wall



Why in news?

- Recently, the scientists at Centre for Cellular and Molecular Biology (CCMB) have discovered a new enzyme that could break the cell wall of bacteria.

In Brief :

- This application will help in overcoming the prevailing problem of antibiotic drug resistance among bacteria.
- When the bacterial cell wall is broken it will ease the delivery of the drug resulting in complete destruction of the target cell.

About Antibiotic Resistance:

- Antibiotics are medicines used to prevent and treat bacterial infections.
- Antibiotic resistance occurs when bacteria change in response to use of these medicines.
- Antibiotic resistance occurs naturally, but misuse of antibiotics in humans and animals is accelerating the process. Poor infection prevention and control further accelerate it.

Retired Judge to head T.N. Lokayukta

Why in News?

The Governor has appointed retired High Court judge P. Devadass as the chairperson of the five-member Lokayukta. **Judicial and non-judicial members are also been appointed.**

Tenure:

The chairperson and the members shall hold office for five years from the day they enter office or the date on which they attain the age of 70 years, whichever is earlier.

Lokayuktha:

1. Maharashtra was the first state to establish Lokayuktha .
2. Odisha had passed the Act in 1970, but came in to force in 1983 only.
3. Its structure is not the same in all the states.

Note



4. Few states have both Lokayukthas and Upalokayukthas, few have only Lokayukthas.

Appointment:

By the Governor.

The Governor consults Chief Justice of state High Court and the Leader of Opposition in the State Assembly.

Also read : Lokpal, Lokpal and Lokayukthas Act 2013.

Manufacturing PMI at 6-month low

In news:

Although operating conditions in the Indian manufacturing industry continued to improve, there was a widespread slowdown in growth.

In brief:

Falling from 54.3 in February to 52.6 in March to a six-month low, the latest figure highlighted a loss of growth momentum, amid softer increases in new orders, production and employment.

A reading above 50 indicates expansion while a print below that level points to contraction.

The deceleration was accompanied by subdued inflationary pressures, with rates of increase in input costs and output charges below their respective long-run averages.

Consumer goods was the brightest spot in March, followed by the intermediate and then investment goods categories.

Concurrently, business sentiment strengthened to a seven-month high.

The increase in new orders was the slowest in six months, with firms reporting that the effect of strong underlying demand, successful advertising, and the receipt of bulk orders was being curbed by competitive conditions and the upcoming elections.

Nikkei India Manufacturing PMI:

- Nikkei is a media organization with newspaper publishing at its core.
- Purchasing Managers’ Index (PMI) surveys are now available for over 40countries
- The Nikkei India Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400industrial companies.

Dead wood

To India’s 80, there were 4,091 pieces of debris left behind by the U.S., 4,025 by Russia and 3,524 by China

Country	Debris (in orbit)	Debris (out of orbit)
China	3,524	1,353
Russia	4,025	15,207
U.K.	1	15
U.S.	4,091	6,325
India	80	343
Japan	55	300
France	334	733

Note



- The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.
- The Nikkei India Manufacturing PMI is a composite index based on five of the individual indexes with the following weights: New Orders -0.3, Output -0.25, Employment -0.2, Suppliers' Delivery Times -0.15, Stock of Items Purchased -0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

Indian space debris may have doubled after Mission Shakti

In news:

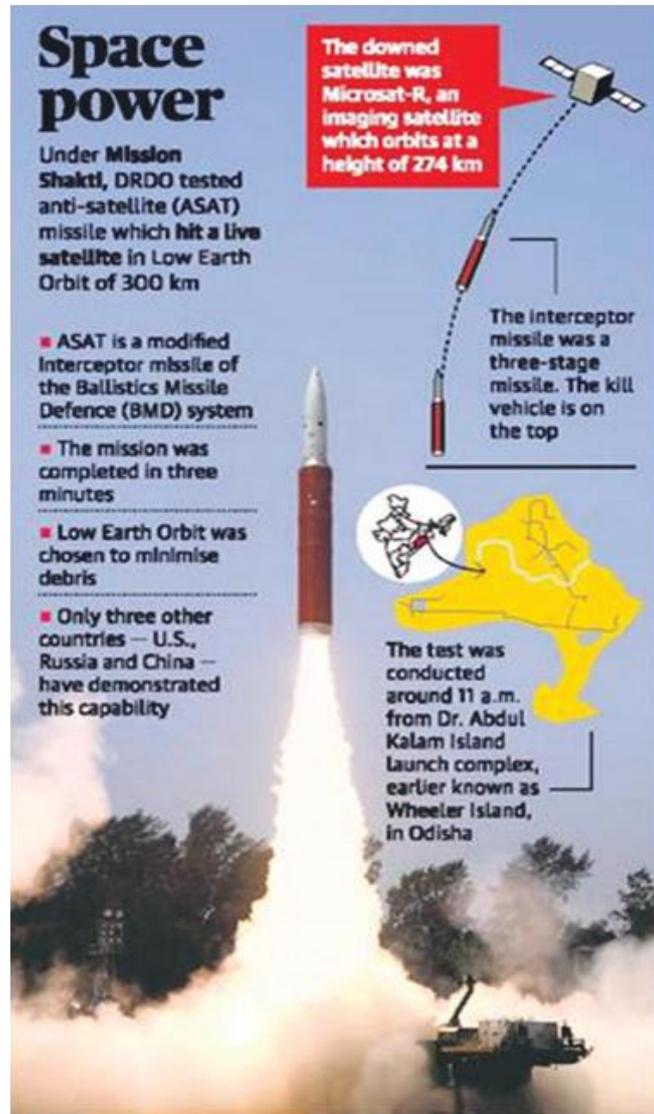
The amount of Indian space debris may have almost doubled in the aftermath of the Mission Shakti anti-satellite strike but this is still significantly less than the existing space debris generated by China, Russia and the United States.

This, however, doesn't include debris from MICROSAT-R, the DRDO satellite that was pulverized by India's anti-satellite missile.

Mission Shakti:

- India conducted its first anti-satellite (ASAT) missile test successfully destroying a low earth orbit satellite in space by using a missile.
- The satellite downed by the ASAT missile was Microsat-R, an imaging satellite which was launched into orbit on January 24, 2019 using a Polar Satellite Launch Vehicle (PSLV).
- The test was carried out from the APJ Abdul Kalam Island in Odisha and the interceptor was a three-stage missile with two solid rocket boosters. ASAT missile was a modified exo-atmospheric interceptor missile of the Ballistic Missile Defence (BMD).
- The missile travelled a distance of almost 300 km from earth and hit the target within three minutes of its launch.
- The test places India in a select group alongside the US, Russia and China.
- As per India's understanding,

Note



the test does not violate any international law or treaty obligation and is much less harmful than the Chinese ASAT test in 2007 that led to a large-scale scattering of debris in space that threatened other satellites.

- Debris that is generated will decay and fall back to the earth within weeks.
- SMA Sub-categories Basis for classification – Principal or interest payment or any other amount wholly or partly overdue between



- Anti-satellite weapon systems are missile-based systems to attack moving satellites. They have a long history and were a product of the Cold War hostilities between the United States and the Soviet Union.



Note

