September 1, 2026

Commentary

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Socializing private losses!

The collusion between political elites, state-appointed bureaucrats, and favoured business conglomerates has resulted in large scale asset siphoning, and erosion of public wealth. The recent decision by India's National Company Law Tribunal (NCLT) approving of the Zee News founder Subhash Chandra's insolvency plan, allowing a settlement of Rs 22,006 crore claims for Rs 6.5 crore, is one of such cases.

As per media reports, the National Company Law Tribunal (NCLT) has now approved a repayment plan where media baron Subhash Chandra will pay Rs 6.5 crore to settle a total debt of Rs 22,006 crore in verified claims by the creditor. The resulting lenders loss of what is ironically called “haircut” is a whopping 99.97% of the total loan amount written off. The Rs 6.5 crore total, includes Rs 6.25 crore for lenders and Rs 25 lakh for process costs. The decision was approved under Section 114 of the Insolvency and Bankruptcy Code, 2016, by the third Judicial member, Nilesh Sharma.

The reports mention that “earlier, the two members of the NCLT had given a split verdict, after which the President of the forum appointed Sharma as the third member amid the difference of opinion” and it was he who rejected the claims of the dissenting creditors led by LIC Housing Finance.

Other reports reveal a sharp divide among the creditors. While a majority (80.81%) voted in favour of Subhash Chandra’s repayment plan, several prominent financial institutions strongly opposed the 99.97% haircut, labelling the recovery amount "unviable and unlawful". The most negatively impacted would be LIC Housing Finance, which held an admitted claim of Rs 1,322.39 crore but is slated to recover a mere Rs 38.09 lakh (approx. 0.028% of its dues). The others include, HDFC Bank, Axis Bank, Canara Bank, RBL Bank and Union Bank of India, among others. The dissenting banks also alleged that the votes favouring the plan heavily consisted of related partes and associate entities of the debtor. Those who voted in favour included investment and capital advisory entities that held the majority voting share (80.814%) that ultimately forced the approval of the Rs 6.5 crore payout. (*HDFC Bank in a subsequent media statement observed that their admitted claim was only 3.2%*

of the total stated claim and it had inherited this facility which was earlier provided by HDFC limited. It also mentioned that it is exploring filing an appeal at the NCLAT.)

The sum and substance of this sordid “haircut” shows how public money is being stolen through such means. Interestingly, way back in June 2021, RPG Enterprises Chairman, Harsh Goenka had tweeted “*Promoters stash away money on the side, take the company to the cleaners, get an 80-90% haircut from bankers/NCLT – that's the new game in town."* In fact, Mr Goenka tagged the PMO and called for the NCLT to be overhauled or cleansed, stating that the public cannot watch hard-earned money get stolen.

One would have thought that when a prominent industrialist of the country himself had pointed out “legalized” socializing of losses, there would have been some effort to stem such “haircuts” given our history of similar mega and often deliberate “non-payment” of debts by the big boys of the industry.

Alas, it seems such instances do not merit the attention of even leading advisors of the Government. However, Niti Aayog vice-chairman Ashok Lahiri has called for a fresh discussion on two banking sector reforms — reviving the Financial Resolution and Deposit Insurance (FRDI) Bill with suitable amendments and introducing a differentiated framework for recognition and resolution of non-performing assets (NPAs) for small business borrowers as per The Telegraph report dated August 25, 2026

It may be remembered that the “*FRDI Bill, introduced in 2017, sought to create a comprehensive framework to deal with the insolvency and failure of financial sector entities, including banks, insurance companies and non-banking financial companies. The government withdrew the proposed legislation in August 2018 amid concerns over depositor protection, particularly its controversial “bail-in” provision. The provision had raised apprehensions that a failing financial institution could use its internal resources, including deposits and certain securities, to fund its revival, potentially putting depositors’ money at risk.”*

Further, the news report noted “Lahiri, however, argued that there was a need for a more efficient mechanism to distinguish financial entities that could be revived from those that were beyond repair.

“Keeping a dead financial sector entity alive can only increase its accumulated loss,” Lahiri said. “A company or an entity may be dead, but if it is not cremated or buried in a decent way, the liability side of its balance sheet does not stop growing.” Lahiri added financial institutions that could be revived should be identified quickly, while those beyond repair should be resolved expeditiously.”

Further, on the NPA framework, Dr Lahiri suggested **“**a differentiated NPA framework for small and medium enterprises, pointing to the disproportionate impact of an NPA classification on smaller borrowers” as per the news report.

While the news report gives no indication on Dr Lahiri’s views, if any, on the FDRI, 2017 bill’s controversial provision of a failing financial institution using its internal resources, including deposits and certain securities, to fund its revival, it is imperative for any financial sector reforms to look at how the IBC, 2016 framework is highly inadequate in “protecting” the interests of the major creditors, which by default, means that public money is being lost through such so called “haircuts”. In fact, for big borrowers, this kind of a haircut is a perfect recipe to siphon of banks and creditors funds with the ultimate cost being borne by their depositors and investors.

And unless the issue of the near wiping of debt through such unethical “haircuts” is dealt with stringently, no meaningful reform of enhancing the efficiency of banks and financial institutions as well as tacking the problem of NPAs is possible.

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