



COVID-19: Insolvency Risks

COVID-19 has impacted the overall business scenario. Loss of business, supply chain issues and lockdowns, could result in liquidity concern for many companies, especially those engaged in manufacturing, travel and hospitality sectors.

While bigger companies may tide through this with lesser damage to their financial position, smaller businesses and those with high debt levels could end up facing financial distress.

With finances being constrained, companies may find it difficult to service their existing debt as well as meet their other financial obligations. Given the financial stress, it may not take long before businesses incur payment defaults, and thereby putting themselves at the risk of being subject to insolvency proceedings. It must be noted that an insolvency proceeding in India can be initiated in case the dues exceed INR 100,000, which is not a very high amount.

Financial constraints could also impact revival of companies which are already subject to an insolvency proceeding. A successful resolution applicant may be forced to delay its payment commitment, in terms of an approved resolution plan, due to financial stress caused by the ongoing scenario. Instead of focusing on new acquisitions, they may prefer to use the funds to keep their existing business afloat. However, since an approved resolution plan is binding on the resolution applicant as well as the creditors, it remains to be seen whether tribunals would approve modification of terms of an approved resolution plan in case the resolution applicant finds it difficult to implement the resolution plan, given the present global scenario.

We continue business as usual and our attorneys and staff are available to provide our clients uninterrupted service. Please do not hesitate to reach out with questions or concerns at any time. We hope that you and your family remain healthy and safe throughout this global health challenge.

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