

# What is Project Sashakt and how it will work (GS 3, Economy, UPSC CSE)

The centre last week accepted Project Sashakt, a five-pronged strategy to resolve bad loans, with the larger ones going to an asset management company (AMC) or an alternative investment fund (AIF). *Mint* takes a look at how it will work.

## What is Project Sashakt?

Project Sashakt was proposed by a panel led by PNB chairman Sunil Mehta. Bad loans of up to ₹50 crore will be managed at the bank level, with a deadline of 90 days. For bad loans of ₹50-500 crore, banks will enter an inter-creditor agreement, authorizing the lead bank to implement a resolution plan in 180 days, or refer the asset to NCLT. For loans above ₹500 crore, the panel recommended an independent AMC, supported by institutional funding through the AIF. The idea is to help consolidate stressed assets.

## How will the national AMC work?

According to the committee, banks will have to set up an AMC under which there will be multiple sector-specific AIFs. These funds will invest in the stressed assets bought by existing ARCs, such as ARCIL. The ARCs will use the funds to redeem security receipts issued to banks against the bad loans. Other AMC-AIFs and ARCs will be allowed to bid for these assets, and match the pricing offered by ARCIL or the national AMC. The AMC will be responsible for the operational turnaround of the asset.

## Who will own the stressed asset?

The ARC after buying the asset from lenders will transfer ownership to the AIF. The new owner, the AMC-AIF, will hold a stake of at least 76%.

## **What do investors think about the plan?**

While investors are optimistic about the AMC-AIF structure, they believe that pricing will be key to complete the transaction. The Mehta panel suggested that the bidding process follow a market-led approach, inviting bids from AMCs, ARCs and AIFs. Existing players, such as ARCIL and the national AMC, will be allowed to set the floor price for the bad assets, while other players will be asked to either match the price or better it.

## **What is the money involved?**

The total quantum of bad loans worth ₹500 crore or more is estimated at ₹3 trillion. According to SBI chairman Rajnish Kumar, the AMC will require funds of ₹1.2 trillion, assuming a 40% loan recovery. Of this, 60-70% is expected to come from domestic institutions and banks, including SBI, and the remaining 30-35% from foreign investors. The AMC will require funding for six to 24 months, said Kumar.

Source: xaam.in