



Recovery rate of insolvency cases resolved at NCLT stood at 30.6% in June quarter

30.6% of the dues to creditors were recovered for insolvency cases that were resolved under IBC in the quarter

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According to research, insolvency case recoveries increased slightly from 26% in Q1 of the previous fiscal to 30.6% in Q1 of the current fiscal, although the number of insolvency cases filed/admitted increased by 23.5% during this time.

The total amount of financial creditors' acknowledged claims increased from Rs6,84,901.3 crore in March 2022 to Rs7,67,384.9 crore in June 2022, although the liquidation value of these cases remained essentially the same at Rs1,31,447.9 crore and Rs1,31,468.6 crore, respectively. According to a Care Ratings research, the realisable value of financial creditors (FCs) increased from Rs2,25,293.8 crore to Rs2,35,093.6 crore, or 32.9 and 30.6 %, respectively. Better than the prior rate of about 26%, the overall recovery rate up to Q1FY23 was 30.6%.

Because bigger settlements have previously been carried out and a considerable number of liquidated cases were either BIFR cases or defunct, the cumulative recovery rate has been on the decline, the agency stated on Friday, falling from 43% in Q1FY20 and 32.9% in Q4FY22. Since the Bankruptcy and Bankruptcy Code's introduction in 2016, there have been more cases allowed for corporate insolvency resolution every quarter. The admission rate jumped in Q1FY23 by 23.5% after declining in FY21 and FY22.

However, as compared to the preceding quarters of fiscal years 2019 and 2020, the actual number of cases admitted remains lower. According to the report written by Sanjay Agarwal, the senior director at the agency, and his team and using data from the IBBI (Insolvency & Bankruptcy Board of India), the number of cases admitted increased steadily from 992 in Q1FY19 to 4,565 in Q1FY22, then to 5,304 in Q4FY22, and finally to 5,636 in Q1FY23.

2,883 of these actions were brought by monetary creditors, and 2,412 by operational creditors. A similar pattern persisted in the reporting June 2022 quarter as well, with corporate debtors continuing to hold the lowest share throughout the same time period while operational creditors' shares increased and decreased.

The manufacturing sector accounts for the biggest percentage of instances, 40%, followed by the real estate (21%), construction (11%), and trading sectors. The share of the major sectors has essentially stayed stable compared to the preceding period (10 percent). The percentage of completed/resolved cases decreased slightly in Q1 FY23 from 31% of the 5,258 admissions in Q4 FY22 to 30% of the 5,632 cases admitted.

Only 9% of the 5,632 total cases accepted at the end of June 2022 had resolution plans approved; 35% were still in the resolution process, compared to 37% at the end of June 2021; and 1,703 cases, or 30% of the total, had been liquidated, of which 76% were either BIFR cases or deceased cases.

Around 14% (774 cases) have been resolved through appeal, review, or settlement, and 11% have been withdrawn under Section 12A, with the applicant's complete settlement—which has climbed to 41.5%—or some other type of settlement with creditors serving as the principal justification (22.8 %).

The overall recovery rate through Q4FY22 was 32.9%, much higher than the preceding recovery rate of 26% but lower than Q2FY22 by 49.2%. According to the report of the Parliamentary standing committee on finance, the reason for the resolution's delay can be traced to the NCLT's slow admission of cases, unsolicited bids made outside of the process, lawsuits filed after the resolution plan has been approved, and the NCLT's lack of staff due to the fact that it also handles cases involving corporate affairs, M&As, and other business-related matters.

As of June 2022, there have been delays of more than 270 days in 61% of the 1,999 continuing cases, which is an improvement of 14% from 75% in June 2021. The instances that arrive less than 90 days late are the second most prevalent, although there are still plenty of cases in the other two groups. Up to 49% of cases referred for liquidation are still open after more than two years, while another 27% are still open after more than a year.

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