

**IBC Update – Amidst the Covid-19 pandemic, cases admitted drops by ~75% over last June, but liquidation continues to account for a larger share than resolution**

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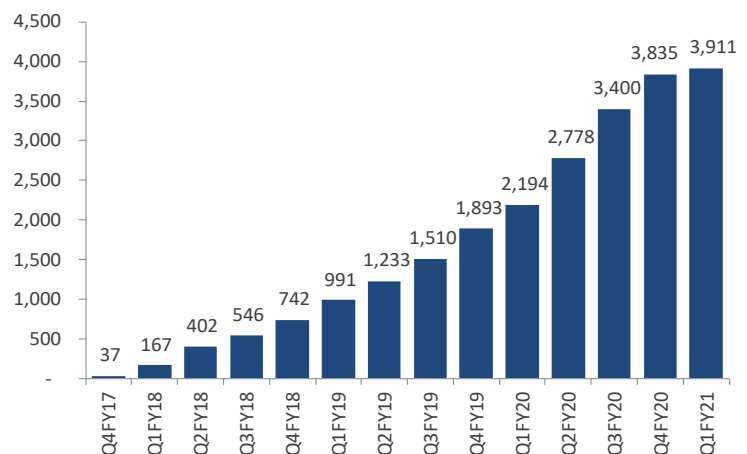
**Overview**

The Insolvency and Bankruptcy Board of India (IIBI) has undertaken several measures in the wake of Covid-19 pandemic across India to help contain the impact of spread of the disease. The pandemic disrupted business operations, particularly MSMEs. To address this, several IBC measures were announced by the government on May 17, 2020 which include:

- Minimum threshold to initiate insolvency proceeding raised to Rs. 1 crore.
- Special insolvency resolution framework introduced for MSMEs.
- Fresh initiation of insolvency proceedings suspended up to one year starting from Mar 25, 2020.
- Empowering central govt. to exclude Covid-19 related debts from the definition of default under the code.

As MSMEs are critical to the economy, the measure of providing special insolvency resolution framework would provide a fillip to the struggling industries. Moreover, as the government raised the minimum threshold to initiate insolvency proceeding from Rs.1 lakh to Rs.1 crore would prevent the small and medium enterprises that are facing currently the heat of Covid-19 pandemic from such proceedings.

**Figure 1: Cumulative # of CIRPs admitted**

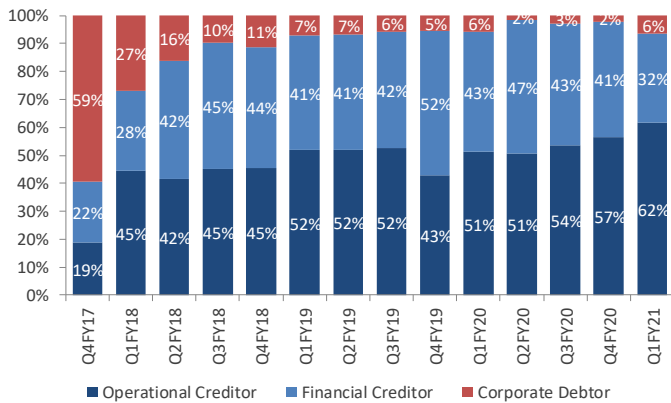


Source: IIBI

The number of cases admitted for Corporate Insolvency Resolution Processes (CIRPs) over the last 13 quarters has increased significantly, and has been generally increasing every quarter, with a major portion of these cases being admitted over the last eight quarters, thereby highlighting the rising acceptance of IBC as an effective debt resolution mechanism. However, June-end quarter witnessed a drop of around 75% compared with the previous year. This can be attributed to the

nation-wide lockdown coupled with suspension of fresh bankruptcy proceeding for Covid-19 defaults.

**Figure 2: Cumulative initiation of CIRPs**

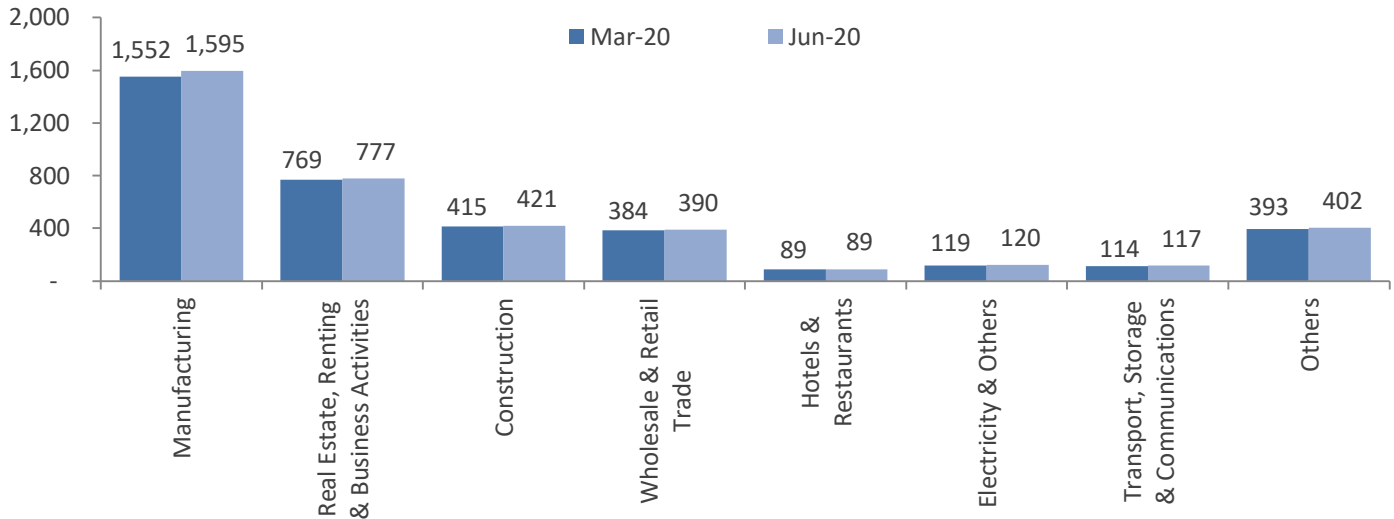


It can be observed that the IBC has continued to gain in popularity, with over 3,900 companies being admitted and a significant number of these cases on a cumulative basis being filed by the operational creditors followed by the financial creditors. The cumulative share of operational creditors increased from 51% at the end of Q1FY20 to 62% at the end of Q1FY21, while financial creditors’ share declined to 32% against 43% at the end of Q1FY20 while the share of corporate debtors remained at similar level compared with the previous year.

Source: IBBI

The following table shows the dispersion of the admitted cases by sector. As can be seen, the manufacturing sector accounts for the highest share at 41% of the overall cases, followed by the real estate (20%), construction (11%) and trading sectors (10%). The sectors have largely remained constant compared with the previous quarter.

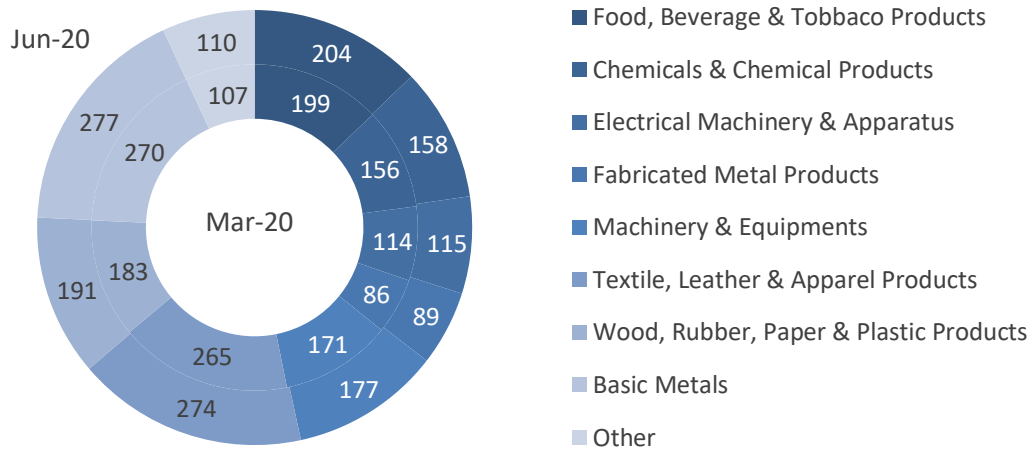
**Figure 3: Cumulative # of CIRPs by sector**



Source: IBBI

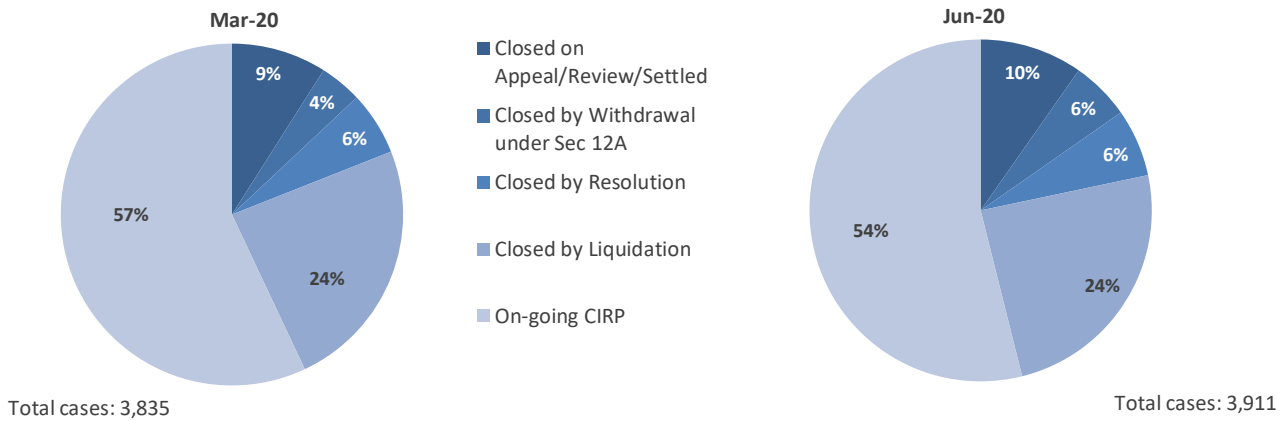
Within the manufacturing domain, basic metals (7%) and textile (7%) sectors continue to have the largest cumulative number of cases admitted under the IBC.

**Figure 4: Distribution of manufacturing sector under CIRP**



Source: IBBI

**Figure 5: Status of CIRPs**



Source: IBBI

**Of the total 3,911 cases admitted into CIRP at the end of June 2020:**

- 54% of the cases continue to still remain in the resolution process against 57% as at end of March 2020.
- 955 have ended into liquidation (i.e. 24% of the total cases admitted, similar to the quarter ended March 2020 level). Over two-third of these cases were BIFR / non-operational companies or those where the resolution value was less than or equal to the liquidation value.
- Around 10% of the cases have been closed on appeal or review or settled.
- 6% of the cases have been withdrawn under Section 12A: A significant number of such cases (45%) were less than Rs.1 crore. The primary reason has been either the full settlement with the applicant which has increased to 31% against 24% as at end of March 2020 or other settlement with creditors (29%).
- Only 6% of the total cases have ended in approval of resolution plans.

**Figure 6: Summary of CIRPs Yielding Resolution**

Particulars	Amt/%	
	For Q1FY21	Upto June 2020
Total admitted claims of Financial Creditors (Rs cr)	29,366.1	422,608.7
Liquidation value (Rs cr)	4,563.6	102,890.8
Realisable by FCs (Rs cr)	8,866.9	188,893.5
Realizable by FCs as a % of their claims admitted	30.2	44.7
Realisable by FCs as a % of their liquidation value	194.3	183.6

Source: IBBI

In the past, recovery rate in India was as low as 26 cents to a 1 USD (i.e. 26% recovery). Post implementation of the IBC, as can be seen in the above table, the overall recovery rate till date in India has improved to 44.7%. However, the recovery for Q1FY21 has dipped to 30.2%, which is significantly lower than 64.1% reported in the last quarter (Q4FY20).

Of the total claims which were settled via liquidation with an admitted claim amount of Rs.1,052 crores in Q1FY21, the realisable value was only Rs.54 crores (around 5% of the admitted claim amount).

### Update on the Initial 12 Large Accounts

At the initial stage, RBI had directed the initiation of resolution proceedings for 12 large accounts by banks. These 12 companies had outstanding claims of Rs.3.45 lakh crore compared to a liquidation value of Rs.73,220 crore. Resolution plans for eight companies have been approved, while liquidation orders were passed against two companies. In case of Amtek Auto, implementation of the resolution plan failed and hence the process has been restarted.

**Figure 7: Summary of Initial Twelve Companies**

Name of Corporate Debtors	Claims of Financial Creditors			Realisation by Claimants as % of Liquidation Value	Resolution Applicant Identified
	Amount Admitted	Amount Realised	Realisation as % of Claims		
Electrosteel Steels	13,175	5,320	40%	183%	Vedanta Ltd.
Bhushan Steel Ltd.	56,022	35,571	64%	253%	Bamnival Steel Ltd. (Tata Steel)
Monnet Ispat and Energy Ltd.	11,015	2,892	26%	123%	Consortium of JSW and Aion
Essar Steel India	49,473	41,018	83%	267%	Arcelor Mittal
Alok Industries Ltd.	29,523	5,052	17%	115%	Reliance Ind., JM ARC
Jaypee Infratech Ltd.	23,176	23,223	100%	131%	NBCC (India) Limited
Jyoti Structures Ltd.	7,365	3,691	50%	387%	Group led by Sharad Sanghi (#)
Bhushan Power & Steel Ltd.	47,158	19,350	41%	209%	JSW Steel Ltd. (#)
Amtek Auto Ltd.	CIRP recommended				
Era Infra Engineering Ltd.	Under CIRP				
Lanco Infratech Ltd.	Under Liquidation				
ABG Shipyard Ltd.	Under Liquidation				

Note: # Final settlement pending; Source: IBBI

### Key changes to the IBC regulations in Q1FY21

- **The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2020:** The Ordinance suspends filing of application for initiation of insolvency proceeding against a company for any default arising during Covid-19 period, which is six months starting from March 25, 2020, but can be extended upto a year if warranted. It insulates a company, which did not have a default as on March 25, 2020, but commits a default during Covid-19 period from being pushed into an insolvency proceeding.

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