

# IBC Continues to remain popular despite Lower Realisations and Elongated Resolution Timelines

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## Overview

India faced a severe NPA issue and earlier options for effective asset resolution were not performing as per expectations, which could partly be attributed to their over-stretched capacity and inadequate infrastructure. Consequently, the IBC was introduced in 2016 to speed up the resolution process. IBC has reduced the time for resolution, and the quantum of recoveries has also increased as compared with earlier levels. However, there still exists significant pendency in the resolution of cases and that the recovery rate has been trending down. Given the importance of Cross Border Insolvency Resolution, comments had been solicited on the Framework for the same. Comments had also been sought on the proposed changes to the Corporate Insolvency Resolution and Liquidation Framework under Insolvency and Bankruptcy Code, 2016 on Enabling a swift admission process, Streamlining avoidable transactions and wrongful trading, Time period for approval of resolution plans, Closure of the Voluntary Liquidation Process, and contribution and utilisation of IBC Fund. Additionally, In Q3FY22, CIRPs were initiated for three FiSPs namely Srei Equipment Finance, Srei Infrastructure Finance and Reliance Capital.

## Despite lower realizations...

**Figure 1: Summary of CIRPs Yielding Resolution**

Particulars	Amt/%		
	Up to March 2021	For Q3FY22	Up to December 2021
Total admitted claims of Financial Creditors (Rs cr)	516,047.0	32,861.90	756,619.82
Liquidation value (Rs cr)	112,643.7	3,289.53	151,068.27
Realisable by FCs (Rs cr)	202,617.8	4,406.76	250,461.79
Realizable by FCs as a % of their claims admitted	39.3	13.41	33.10
Realisable by FCs as a % of their liquidation value	179.9	133.96	165.79

Source: IBBI

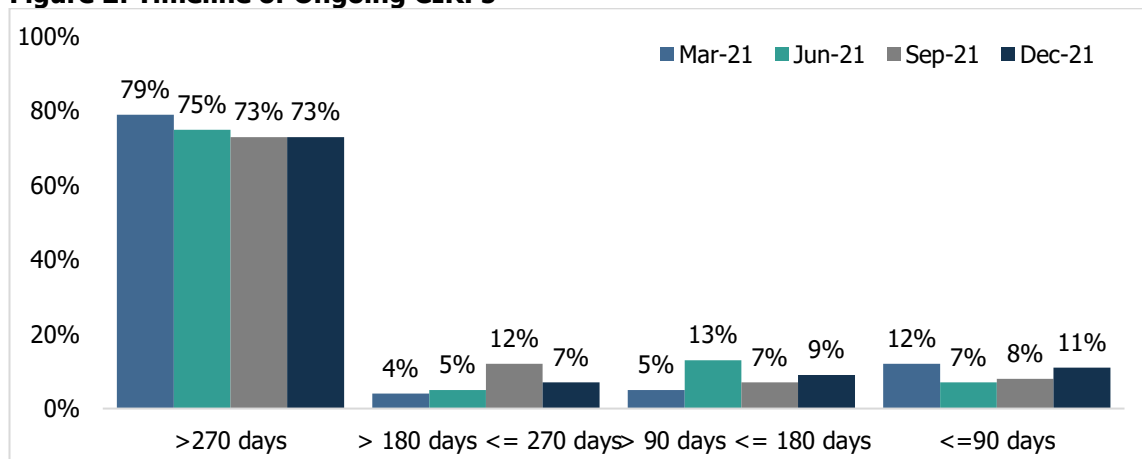
Post implementation of the IBC, as can be seen in figure 1, the overall recovery rate till Q4FY21 in India improved to 39.3%, which was significantly better than the earlier recovery rate of 26% (26 cents to a 1 USD). However, the recovery rate for Q2FY22 stood at 49.2%, which has shrunk significantly to 13.41% in Q3FY22 taking the cumulative rate to 33.1%. Although the recovery rate has been higher compared to other measures, the same has declined over a period (it declined from 45.9% in March 2020 to 36% in June 2021 and even further in December 2021 to 33.1%). According to the report of the Standing Committee on Finance issued in August 2021, the delay in resolution can be attributed to 1) delay in admitting cases to NCLT, 2) unsolicited bids outside the process which delay resolution, 3) subsequent litigations after resolution plan has been approved, and 4) short-staffed NCLT and to the fact that NCLTs also handle cases relating to corporate affairs, M&As, etc.

## ...and delays in ongoing Corporate Insolvency Resolution Process (CIRPs)...

Of the 1,699 on-going CIRPs, there has been a delay by more than 270 days for the completion of process of 73% of on-going CIRPs in December 2021 which is lower as compared to 79% in March 2021. Further we can observe that the less than 90 days segment is the second largest indicating that quite a few cases have commenced in the quarter, while the other two categories continue to have quite a few cases in them highlighting the significant delays in the process. The delays for closure of CIRP are similar across various categories of stakeholders, but the

corporate debtor segment takes a somewhat longer time for resolution compared to the other two stakeholders (financial creditor and operational creditor).

**Figure 2: Timeline of Ongoing CIRPs**

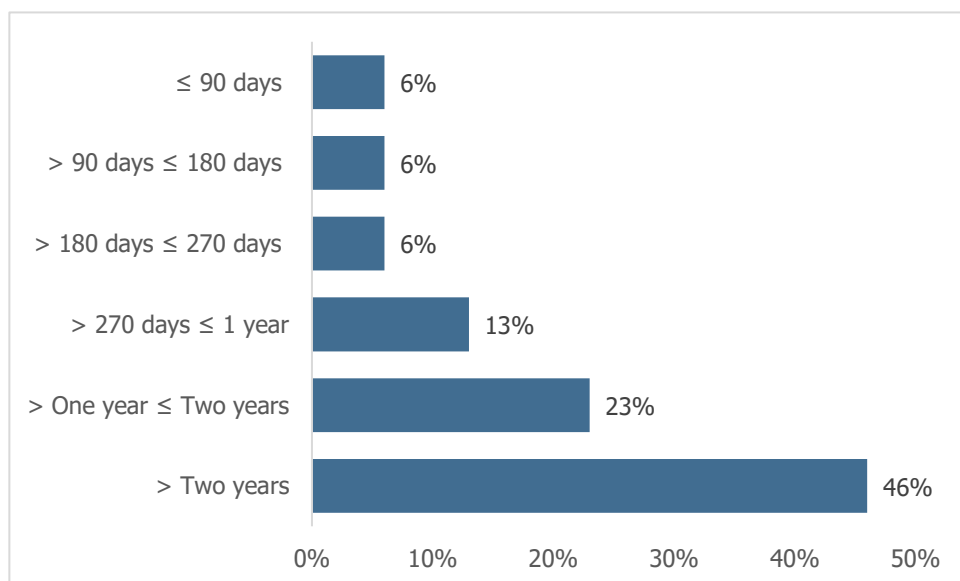


Source: IBBI

**...and even in the liquidation process...**

Figure 3 highlights the pendency even for cases which have gone into liquidation with more than 46% of the cases pending for more than two years and another 23% of the cases pending for more than one year.

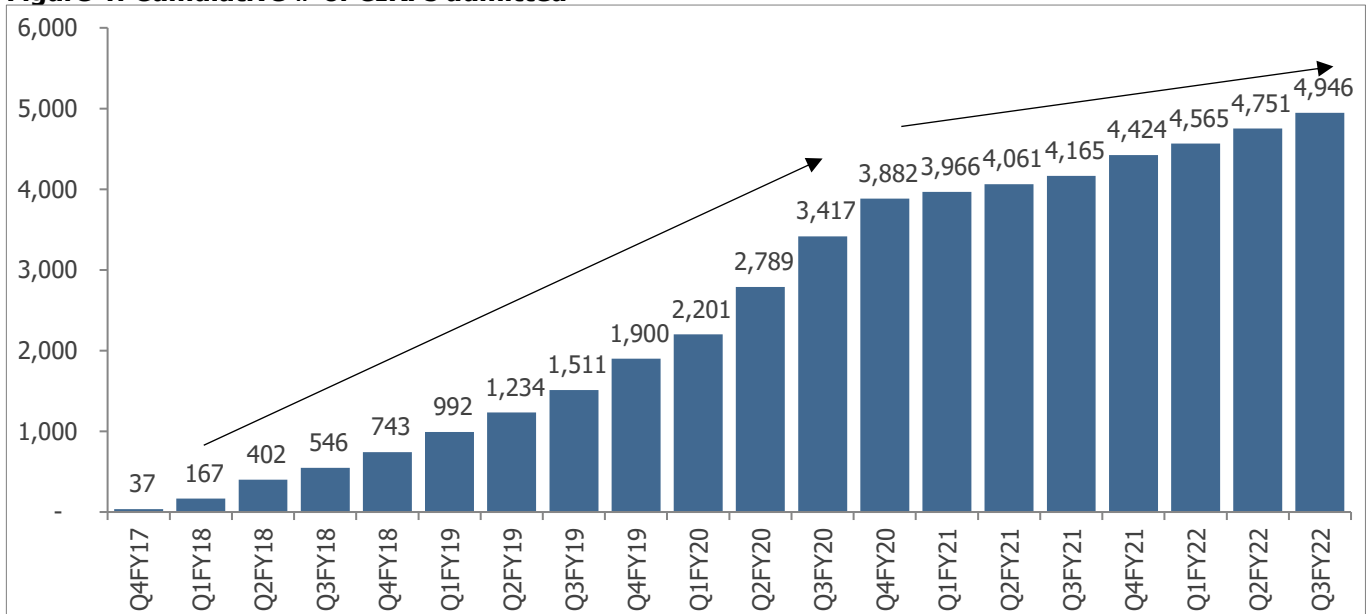
**Figure 3: Status of Ongoing Liquidation cases (%)**



Source: IBBI

**...CIRP continues to remain popular**

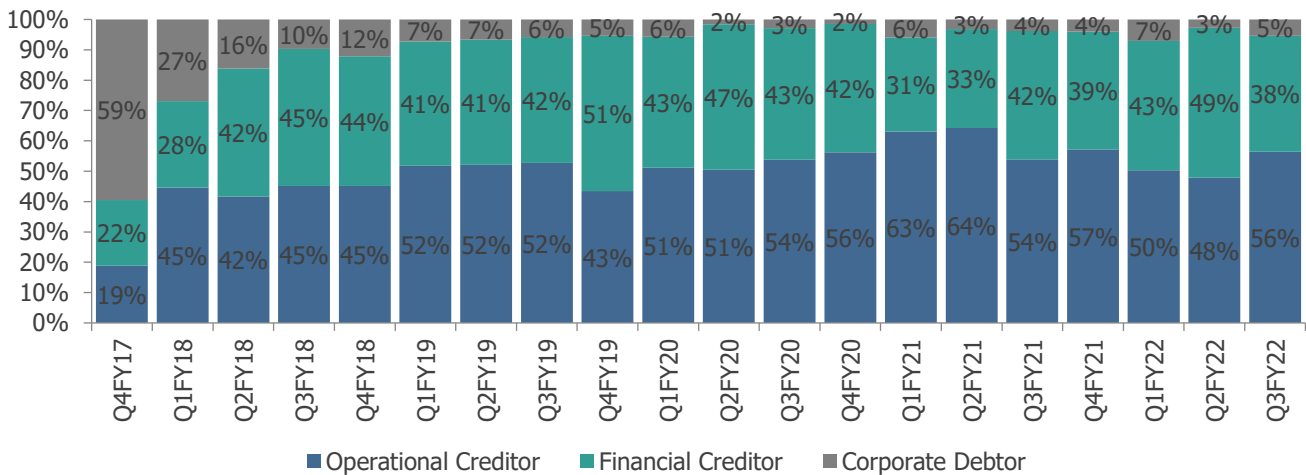
**Figure 4: Cumulative # of CIRPs admitted**



Source: IBBI

The number of cases admitted for Corporate Insolvency Resolution Processes (CIRPs) has witnessed a quantum jump with the cases generally increasing every quarter. It should be noted that a major portion of these cases have been admitted over the last ten quarters, thereby highlighting the rising acceptance of IBC as an effective debt resolution mechanism. It can be noted that the cases admitted increased in Q3FY22 (195 cases) compared with Q2FY22 (186 cases) but was lower than the approximately 250 cases admitted in Q4FY21.

**Figure 5: Stakeholder-wise Distribution of CIRPs during the quarter**

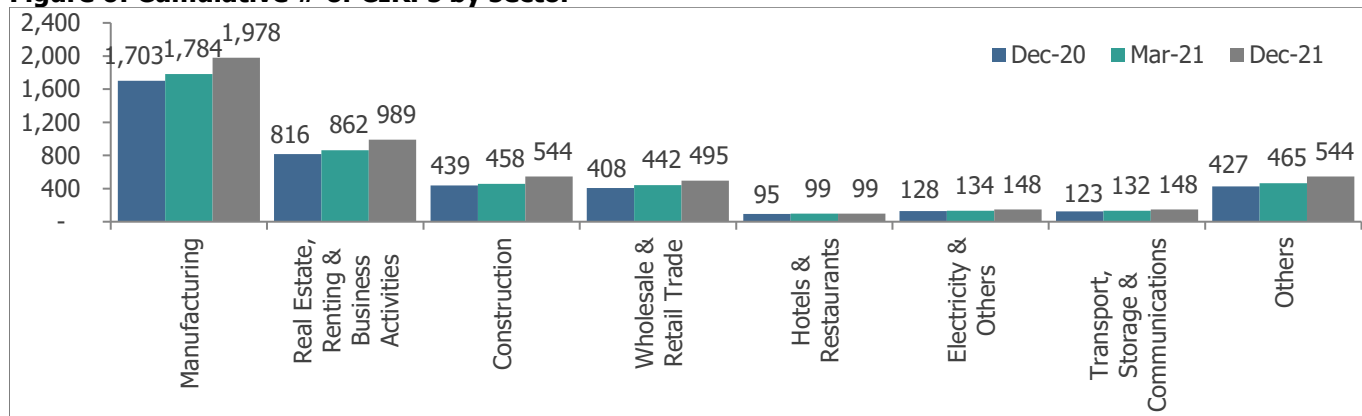


Source: IBBI

As seen in Figure 6, IBC has continued to gain in popularity, with over 4,900 companies being admitted and a significant number of these cases on a cumulative basis being filed by the operational creditors (2,527 cases) followed by the financial creditors (2,111 cases). As of December 2021, the share of operational creditors has increased, while that of financial creditors has decreased. The share of corporate debtors has remained the smallest over the same period.

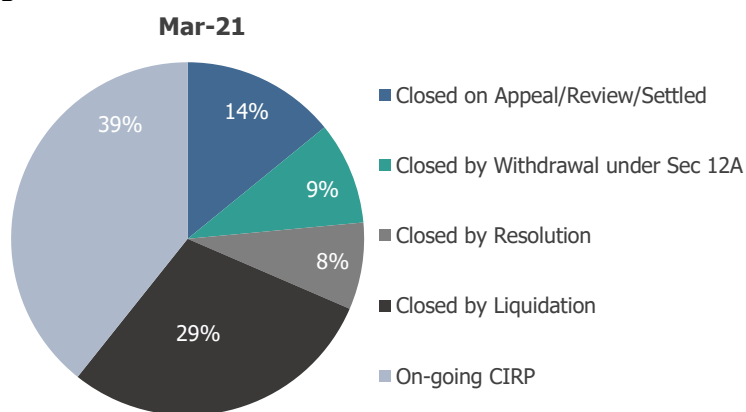
The following figure 6 shows the dispersion of the admitted cases by sector. As can be observed, the manufacturing sector accounts for the highest share at 40% of the overall cases, followed by the real estate (20%), construction (11%) and trading sectors (10%). The sectors have largely remained constant compared with the previous period.

**Figure 6: Cumulative # of CIRPs by sector**



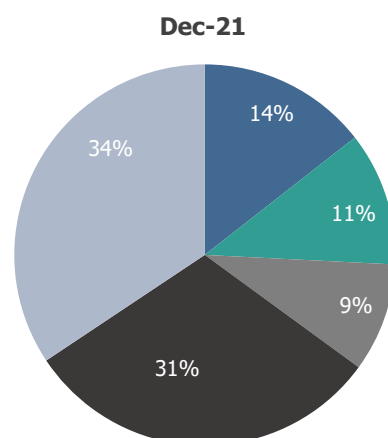
Source: IBBI

**Figure 7: Status of CIRPs**



Total cases: 4,376

Source: IBBI



Total cases: 4,946

Of the total 4,946 cases admitted into CIRP at the end of December 2021:

- 34% of the cases continue to remain in the resolution process against 39% as at the end of March 2021, with manufacturing sector accounting for a majority, followed by real estate and the construction segment.
- 1,514 cases have ended into liquidation (i.e., 31% of the total cases admitted, higher compared with the last quarter). However, 77% of the CIRPs ending in liquidation (1,143 out of 1,512) were either BIFR cases and / or defunct.
- Around 9% (714 CIRPs) of the cases have been closed on appeal or review or settled which is same share when compared with the last quarter and around 100 bps higher than Q4FY21.
- 11% of the cases have been withdrawn under Section 12A: A significant number of such cases (around 54%) were less than Rs.1 crore. The primary reason has been either the full settlement with the applicant

which has increased to 42.5% against 37% as at end of March 2021 or other settlement with creditors (20.2%).

- Only 9% of the total cases have ended in approval of resolution plans (an increase by only 1% compared with March-2021 and same as the last quarter).

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