

Insolvency Resolution Remains Slow in Q1 even as Haircuts Rise

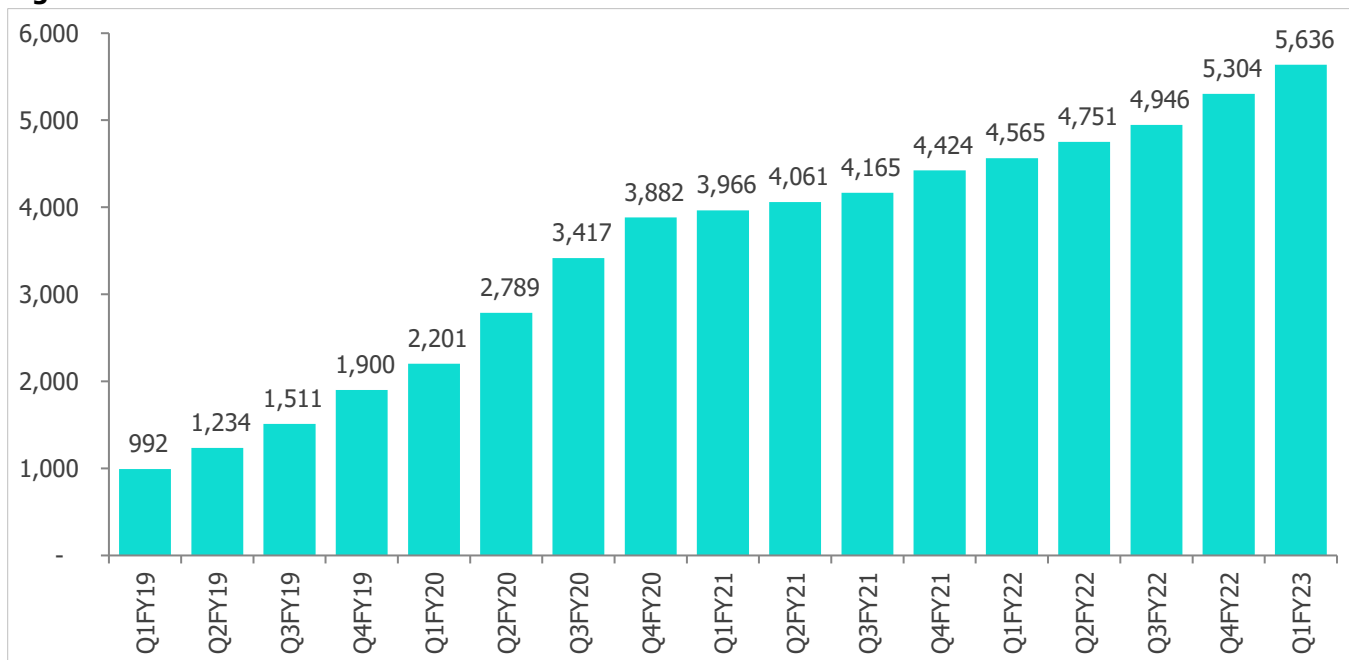
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Synopsis

- After slowing in H2FY21 and FY22, the number of insolvency cases increased by 23.5% y-o-y in Q1FY23, while the distribution of cases across sectors has remained similar, compared to earlier periods.
- The overall recovery rate till Q1 FY23 was 30.6%, better than earlier rate of around 26% (26 cents to USD).
- However, the cumulative recovery rate has been on a downtrend, decreasing from 43% in Q1 FY20 and 32.9% in Q4 FY22 as larger resolutions have already been executed and a significant number of liquidated cases were either BIFR cases and/or defunct.

Corporate Insolvency Resolution Process Remains Popular...

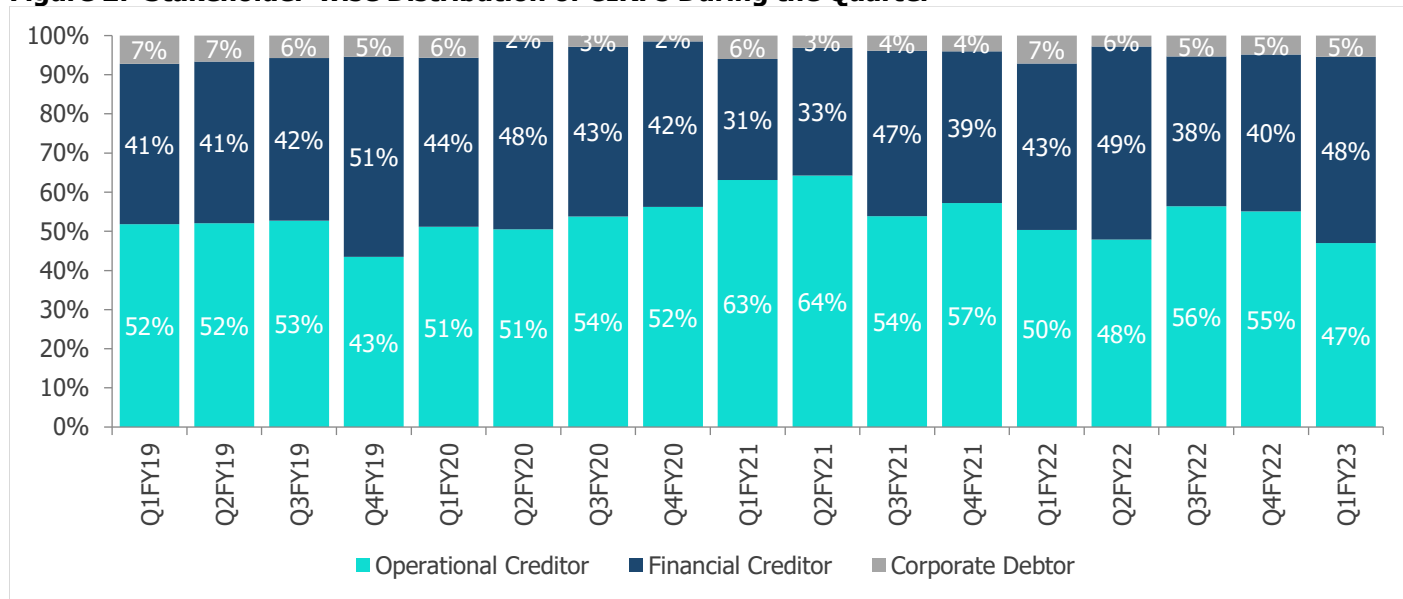
Figure 1: Cumulative # of CIRPs Admitted



Source: IBBI

The number of cases admitted for Corporate Insolvency Resolution Process (CIRPs) has increased each quarter since the launch of Insolvency and Bankruptcy Code in 2016. A major portion, however, has been admitted over the last 12 quarters, highlighting the rising acceptance of IBC as an effective debt resolution mechanism. The admission of cases has increased y-o-y in Q1FY23 by 23.5% after reducing in the last few quarters in FY21 and FY22, however despite the increase, the number of cases admitted to the insolvency process continue to be lower compared to earlier quarters in FY19/20.

Figure 2: Stakeholder-wise Distribution of CIRPs During the Quarter

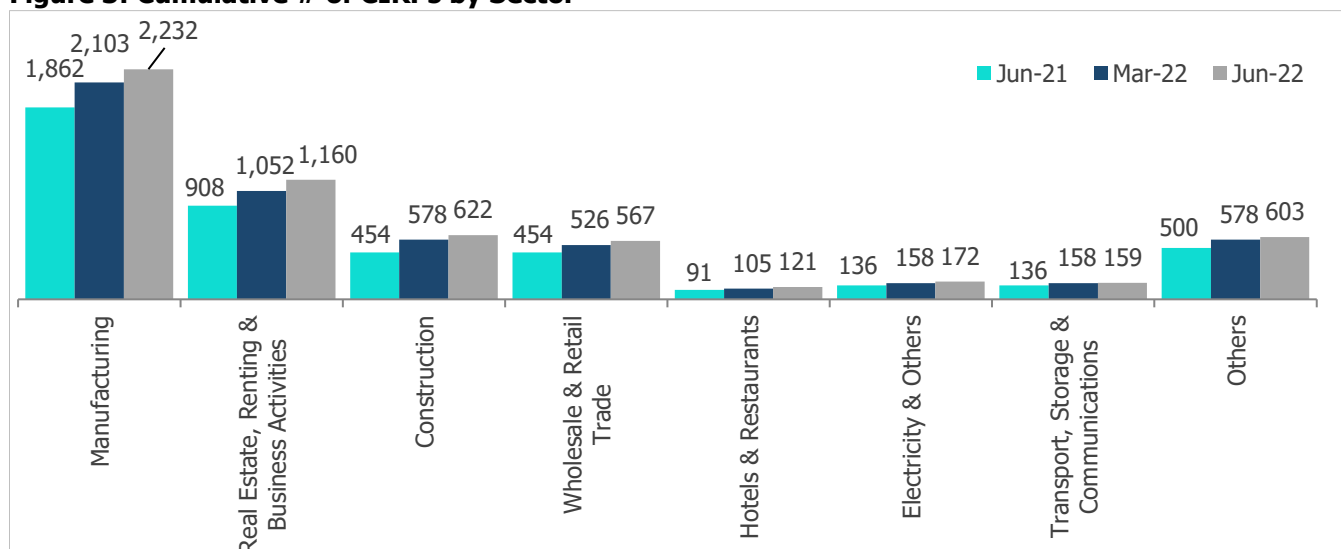


Source: IBBI

IBC has continued to gain in popularity, with over 5,600 companies being admitted and a significant number of these cases on a cumulative basis being filed by the financial creditors (2,883 cases) followed by the operational creditors (2,412 cases). As of June 2022, the share of financial creditors has increased, while that of operational creditors has decreased. The share of corporate debtors has continued to remain the smallest over the same period.

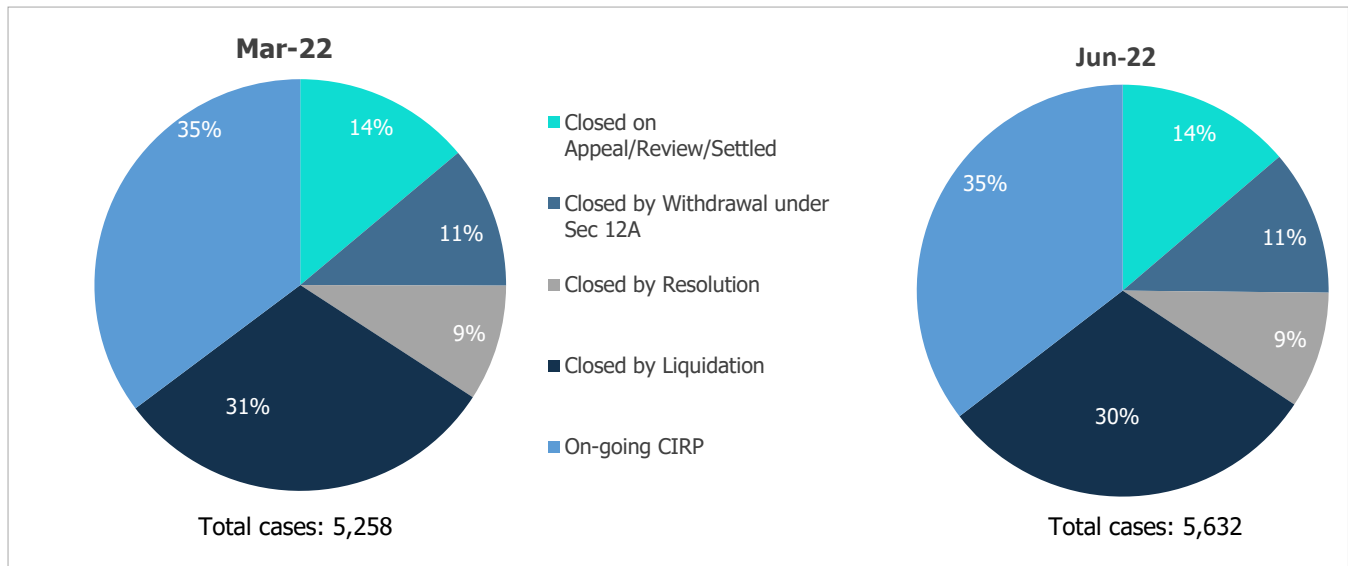
Figure 3 shows the dispersion of the admitted cases by sector. The share of the various sectors has largely remained constant compared with the previous period. As can be observed in Figure 3, the manufacturing sector accounts for the highest share at 40% of the overall cases, followed by the real estate (21%), construction (11%) and trading sectors (10%).

Figure 3: Cumulative # of CIRPs by Sector



Source: IBBI

Figure 4: Status of CIRPs



Source: IBBI

The status of the cases has largely remained constant compared with the previous period. Of the total 5,632 cases admitted into CIRP at the end of June 2022:

- Only 9% have ended in approval of resolution plans, while 35% remain in the resolution process vs. 37% as of the end of June 2021.
- 1,703 have ended in liquidation (30% of the total cases admitted). Meanwhile, 76% such cases were either BIFR cases and/or defunct.
- Around 14% (774 CIRPs) have been closed on appeal /review /settled, while 11% have been withdrawn under Section 12A. A significant number of withdrawn cases (around 54%) were less than Rs.1 crore, while the primary reason for withdrawal has been either the full settlement with the applicant which has increased to 41.5% or other settlement with creditors (22.8%).

...Despite Declining Realisations...

Figure 5: Summary of CIRPs Yielding Resolution

Particulars	Amt/%		
	Up to March 2022	For Q1FY23	Up to June 2022
Total admitted claims of Financial Creditors (Rs cr)	684,901.3	10,697.3	767,384.9
Liquidation value (Rs cr)	131,447.9	788.5	131,468.6
Realisable by FCs (Rs cr)	225,293.8	1,145.2	235,093.6
Realizable by FCs as a % of their claims admitted	32.9	10.7	30.6
Realisable by FCs as a % of their liquidation value	171.4	30.6	178.8

Source: IBBI

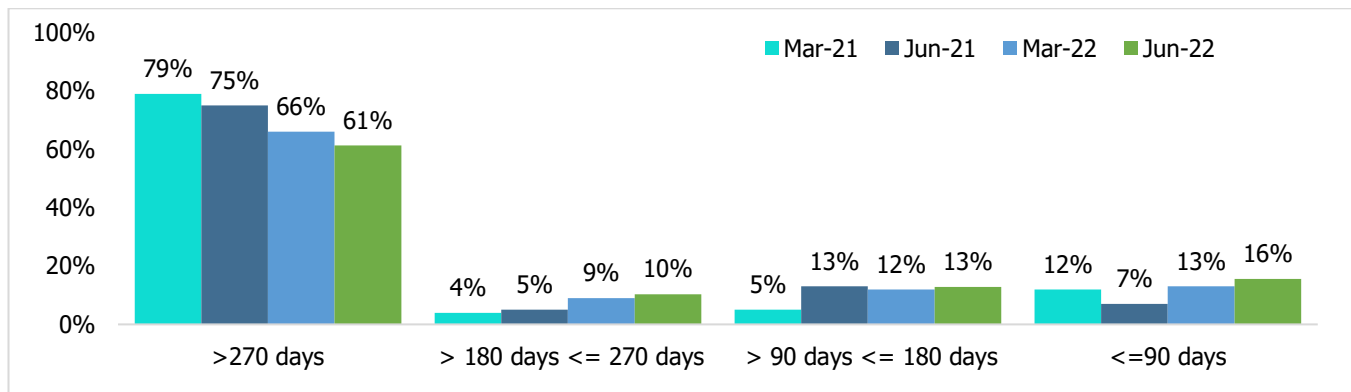
Post the implementation of the IBC, as can be seen in figure 5, the overall recovery rate till Q4FY22 in India reached 32.9%, which was significantly better than the earlier recovery rate of 26% (26 cents to a 1 USD). However, this recovery rate has been on a declining trend. The recovery rate for Q2 FY22 stood at 49.2%, which shrunk

significantly to 13.41% in Q3FY22 and even further to 10.2% in Q4 FY22 and reached 10.7% for Q1FY23 resulting in the overall recovery dropping to 30.6% by Q1FY23 end. According to the report of the Standing Committee on Finance, 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 the 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 CIRPs...

Of the 1,999 going ongoing CIRPs, there has been a delay of more than 270 days for the completion of the process of 61% of ongoing CIRPs in June 2022 which is a decline of 14% as compared to 75% in June 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 6: Timeline of Ongoing CIRPs

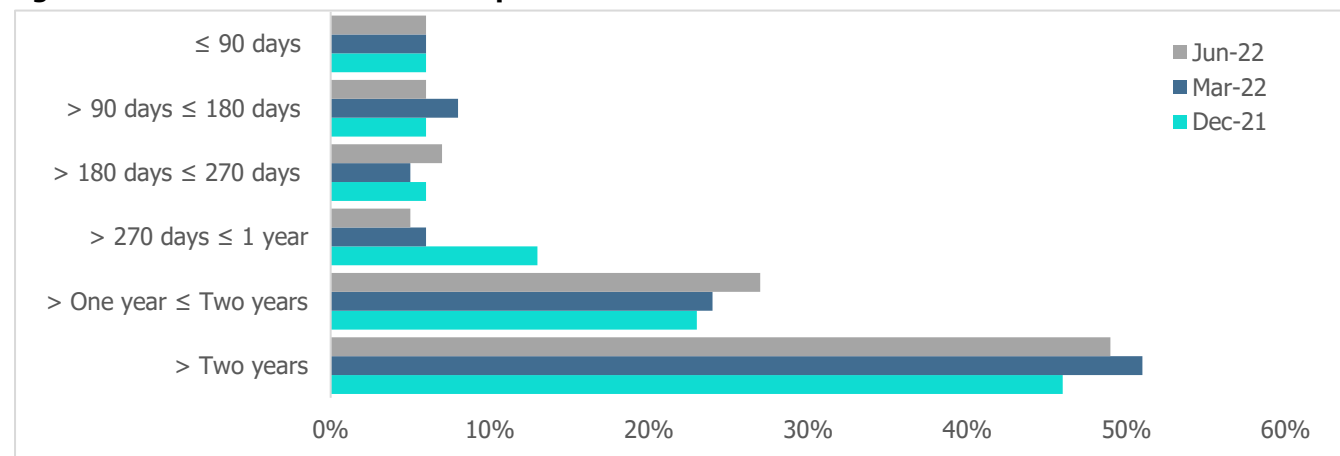


Source: IBBI

...and Even Liquidation

Figure 7 highlights the pendency even for cases which have gone into liquidation with around 49% of the cases pending for more than two years and another 27% of the cases pending for more than one year.

Figure 7: Timeline of Cases under Liquidation



Source: IBBI

Update on Insolvency Resolution of Personal Guarantors

Apart from the details on the corporate insolvency process which have been covered earlier, figure 8 contains details on the insolvency resolution and bankruptcy proceedings related to personal guarantors.

Figure 8: Insolvency Resolution of Personal Guarantors

Period	Applications filed by				Total		Adjudicating Authority	
	Debtors		Creditors					
	#	Rs crore	#	Rs crore	#	Rs crore	NCLT	DRT
FY20	3	49.7	19	3,256.9	22	3,306.5	21	1
FY21	19	2,485.9	218	36,760.4	237	39,246.3	231	6
FY22	80	3,039.2	773	59,691.1	853	62,730.3	842	11
Q1FY23	12	661.6	111	5,006.2	123	5,667.8	123	-
Total	114	6,236.4	1,121	104,714.5	1,235	110,950.9	1,217	18

Source: IBBI

Of the above 1,235 applications.

- 48 were withdrawn/ rejected / dismissed before the appointment of a resolution professional
- Resolution professionals were appointed in 488 cases
 - 90 cases have been appointed
 - 14 cases have been withdrawn/ rejected / dismissed

Update on Avoidance Transactions

Under the IBC, resolution professionals (RP) can reverse any transaction entered by the debtor company before the IBC is invoked if the RP can prove that the transaction was intended to divert funds or alienate assets. These provisions are generally used on related party transactions, fund diversions and other relevant corporate actions and any money so recovered is distributed amongst the lenders. However, such claims can only be done after approval by the NCLT.

Figure 9: Status of Avoidance Transactions

Nature of Transactions	Applications Filed		Applications Disposed		
	#	Amount (Rs crore)	#	Amount involved (Rs crore)	Amount recovered (Rs crore)
Preferential	123	14,435.4	22	519.1	29.2
Undervalued	15	884.3	1	351.6	-
Fraudulent	137	21,889.0	13	467.4	3.7
Extortionate	3	70.7	-	-	-
Combination	508	183,824.9	50	16,507.9	26.8
Total	786	221,104.4	86	17,846.1	59.6

Source: IBBI

As per figure 9, RPs have filed 786 applications for avoidance transactions amounting to approximately Rs 2.2 lakh crore. Of these, only 86 transactions involving over Rs 17,500 crore (approximately 8.1% of the amount involved) were disposed of and only Rs 59.6 crores (only 0.3% of the amount disposed) have been recovered. Further, in one case 758 acres of land out of 858 acres earlier valued at Rs. 5,500 crore has been recovered by a company which is under the resolution process.

Recommendations of the Insolvency Law Committee on CIRP

The Insolvency Law Committee (ILC) submitted in May 2022, a report which provided recommendations for the CIRP and liquidation processes. These recommendations include mandating reliance on information utilities (IUs) for establishing default, a continuation of proceedings for avoidable transactions and improper trading after CIRP, change in threshold date for look-back period to the date of the filing of application for initiation of CIRP, curb submission of unsolicited resolution plans and revisions of resolution plans, prescribe timeline for approval or rejection of resolution plan, standard of conduct of the committee of creditors (CoC), consult with the stakeholders consultation committee (SCC), secured creditor's contribution, and termination of the voluntary liquidation process.

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