

# IBC Update – Still the most successful option for recoveries despite lowered recovery rate and delayed timelines

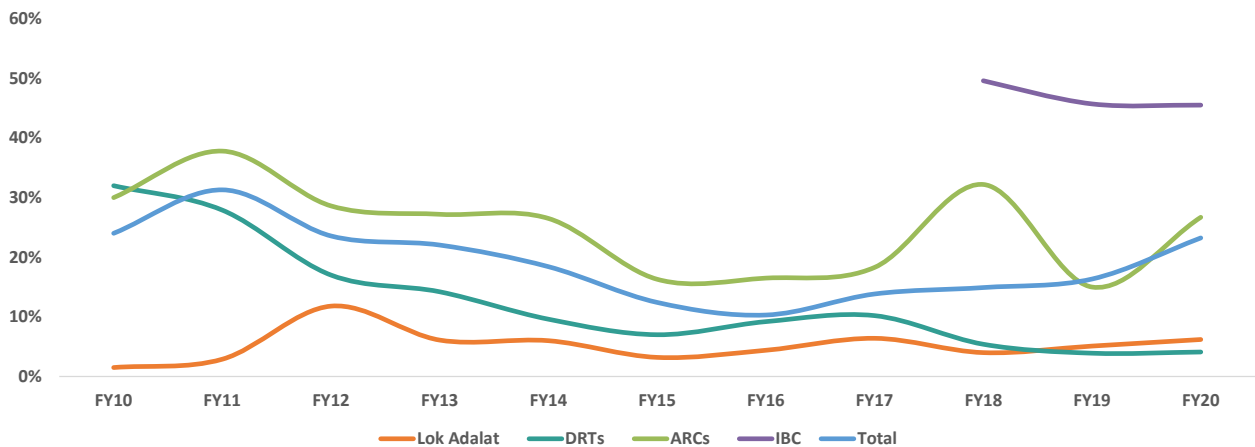
September 09, 2021 | BFSI Research

## Overview

The NPA problem in India has been severe both in absolute as well as in comparative terms. Despite a recent dip, systemic NPAs are at a higher level compared to earlier levels as well as international levels. An effective asset resolution mechanism is an integral part of a well-functioning financial system. Consequently, RBI has provided several options for resolution and collection such as Lok Adalat and Debt Recovery Tribunals (DRTs), and ARCs. The earlier options were created for a speedy settlement of debt-related matters. However, despite their initial promise, these options faced considerable delays which can partly be attributed to their over-stretched capacity and inadequate infrastructure.

Consequently, over five years ago, the IBC was introduced to speed up the resolution process. The IBC has been the most significant reform concerning NPA resolution. IBC has reduced the time for resolution, and the quantum of recoveries has also increased as compared with earlier levels. It has also introduced a pre-packaged resolution process for stressed micro, small and medium enterprises (MSMEs) for faster resolution. IBBI has issued two discussion papers namely on code of conduct for the committee of creditors and the liquidation mechanism to improve transparency and ensure buy-in from the stakeholder creditor committee. While the benefits of the IBC cannot be denied, the corporate insolvency resolution process continues to face hurdles which would need to be substantially alleviated for ensuring the continued success of the IBC over the long term.

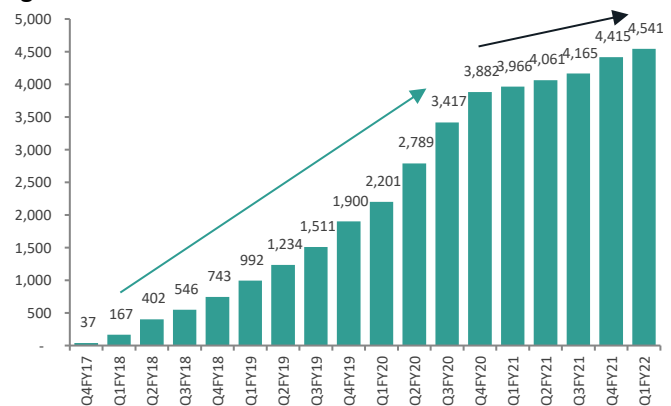
**Figure 1: Amount Recovered as a % of amount involved**



Source: RBI

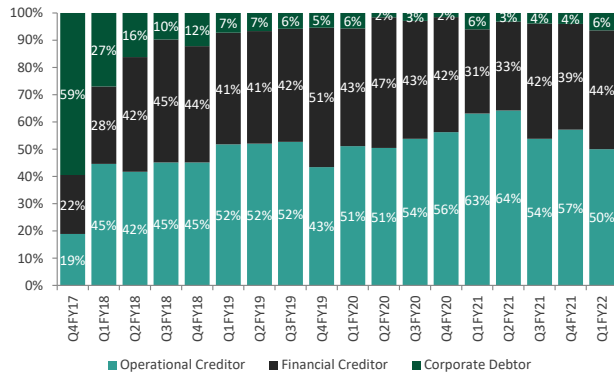
The number of cases admitted for Corporate Insolvency Resolution Processes (CIRPs) over the last 17 quarters has witnessed a quantum jump with the cases increasing every quarter. It should be noted that a major portion of these cases have been admitted over the last ten quarters, thereby highlighting the rising acceptance of IBC as an effective debt resolution mechanism. However, the cases admitted slowed down in Q1FY22 (126 cases) compared with approximately 250 cases admitted in Q4FY21.

**Figure 2: Cumulative # of CIRPs admitted**



Source: IBBI

**Figure 3: Stakeholder-wise Distribution of CIRPs**

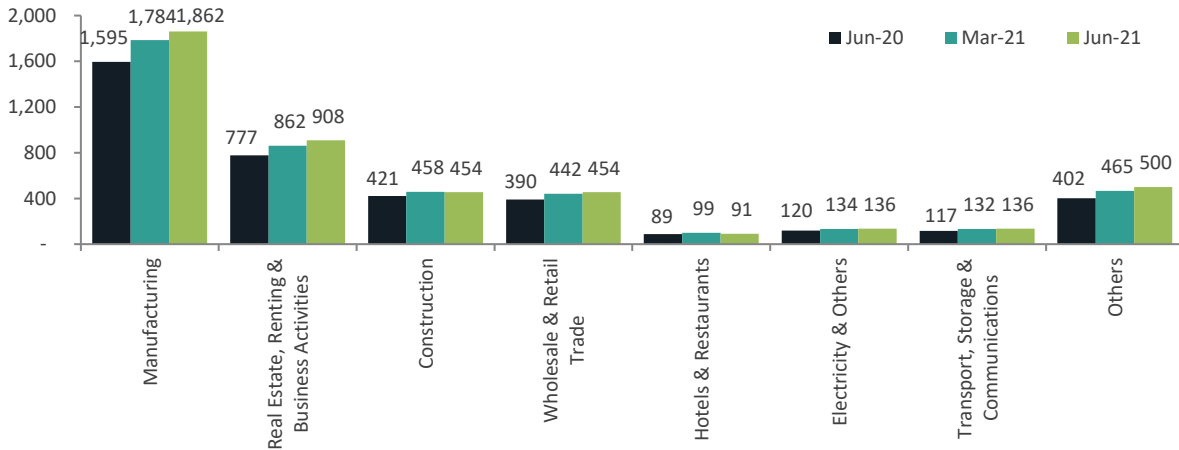


Source: IBBI

As seen in Figure 2, IBC has continued to gain in popularity, with over 4,500 companies being admitted and a significant number of these cases on a cumulative basis being filed by the operational creditors (2,313 cases) followed by the financial creditors (1,942 cases). The share of operational creditors reduced as compared to the previous year, while financial creditors' share correspondingly increased, and the share of corporate debtors remained the same at the end of Q1FY22.

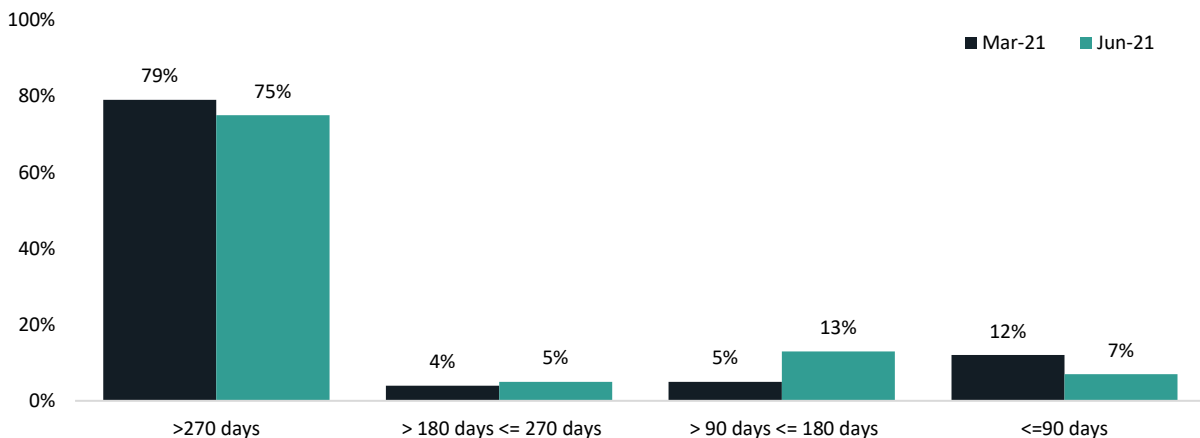
The following table shows the dispersion of the admitted cases by sector. As can be observed, the manufacturing sector accounts for the highest share at 41% of the overall cases, followed by the real estate (20%), construction (10%) and trading sectors (10%). The sectors have largely remained constant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

**Figure 4: Cumulative # of CIRPs by sector**



Source: IBBI

**Figure 5: Timeline of Ongoing CIRPs**



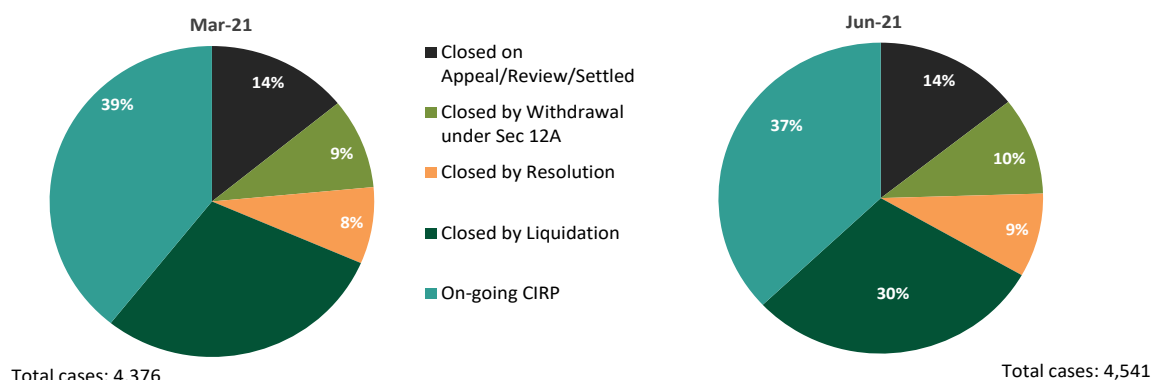
Source: IBBI

Of the 1,682 on-going CIRPs, there has been a delay by more than 270 days for the completion of process of 75% of on-going CIRPs in June 2021 which is lower as compared to 79% in March 2021. Further we can observe that the admitted cases have shifted from the less than the 90 days bucket to the next bucket.

According to the report of the Standing Committee on Finance issued in August 2021, around 13,170 insolvency cases involving claims of Rs 9.2 lakh crore are awaiting resolution before the NCLT and about 71% of the cases have been pending for over 180 days. According to the report, the delay 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 (over 50% vacancies NCLT has a vacancy of 34 members against a sanctioned number of 62 members) and to the fact that NCLTs also handle cases relating to corporate affairs, M&As, etc.

**Figure 6: Status of CIRPs**



Source: IBBI

**Of the total 4,541 cases admitted into CIRP at the end of June 2021:**

- 37% 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.
- 1,349 cases have ended into liquidation (i.e., 30% of the total cases admitted, higher compared with the last quarter). However, 75% of the CIRPs ending in liquidation (1,011 out of 1,349) were either BIFR cases and / or defunct.
- Around 14% (653 CIRPs) of the cases have been closed on appeal or review or settled which is the same as the last quarter.
- 10% of the cases have been withdrawn under Section 12A: A significant number of such cases (50%) were less than Rs.1 crore. The primary reason has been either the full settlement with the applicant which has increased to 39% against 37% as at end of March 2021 or other settlement with creditors (22%).
- Only 9% of the total cases have ended in approval of resolution plans (an increase by only 1% compared with March-2021).

**Figure 7: Summary of CIRPs Yielding Resolution**

Particulars	Amt/%		
	Up to March 2021	For Q1FY22	Up to June 2021
Total admitted claims of Financial Creditors (Rs cr)	516,047.0	167,463.5	682,397.1
Liquidation value (Rs cr)	112,643.7	33,321.8	146,285.2
Realisable by FCs (Rs cr)	202,617.8	42,630.6	245,679.8
Realizable by FCs as a % of their claims admitted	39.3	25.5	36.0
Realisable by FCs as a % of their liquidation value	179.9	127.9	167.9

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 Q4FY21 in India improved to 39.3%. However, the recovery for Q1FY22 has dipped to 25.5% reducing the cumulative rate to 36%. 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).

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