

## IBC Update – Cases admitted in Q3FY21 at 20% of cases admitted in Q3FY20

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### Overview

The Insolvency and Bankruptcy Board of India (IBBI) has undertaken several measures in the wake of Covid-19 pandemic across India to help contain the impact of spread of the disease. The economic fallout due to COVID-19 pandemic has led to significant financial stress for borrowers across the board, this may remain a concern for some time as there is no clarity as to when COVID-19 will subside fully and even after that the business and economy may take some time to return to normal.

To address this, several IBC measures were announced by the government on May 17, 2020 which included increasing the minimum amount of default for initiation of corporate insolvency resolution process to Rs. 1 crore and suspending filing of applications for initiation of corporate insolvency resolution process in respect of the defaults arising during the period of one year beginning from March 25, 2020. However, such suspension for filing of applications for initiation of corporate insolvency resolution process has ended on March 24, 2021.

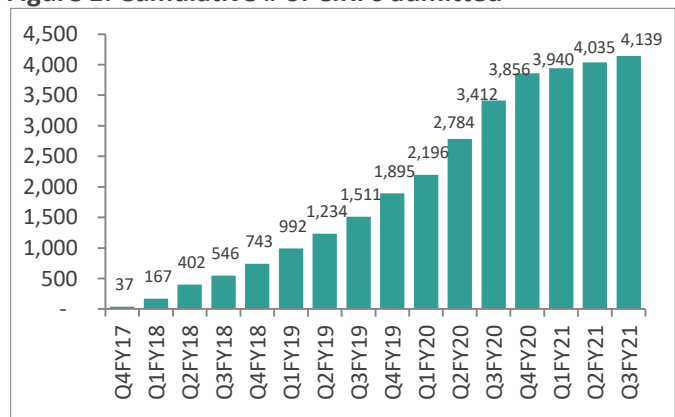
### Key changes to the IBC regulations

The Covid-19 spread has largely impacted the business operations of micro, small and medium enterprises and exposed many of them to financial distress. Considering the current situation, the Central Government has promulgated on April 04, 2021 an Insolvency and Bankruptcy Code (Amendment) Ordinance 2021 to allow pre-packaged insolvency resolution process for corporate debtors classified as micro, small or medium enterprises under the Micro, Small and Medium Enterprises Development Act, 2006. Micro, small and medium enterprises are critical for India's economy as they contribute significantly to its gross domestic product and provide employment to a sizeable population. As per the ordinance, it is considered necessary to urgently address the specific requirements of MSME enterprises relating to the resolution of their insolvency, due to the unique nature of their businesses and simpler corporate structures.

The pre-pack will act as an efficient alternative insolvency resolution process for corporate persons classified as micro, small and medium enterprises under the Insolvency and Bankruptcy Code and ensure quicker, cost-effective and value-maximising outcomes for all the stakeholders, in a manner which is least disruptive to the continuity of their businesses and which preserves jobs, the ordinance added. The pre-packaged insolvency resolution process shall be completed within a period of 120 days from the pre-packaged insolvency commencement date.

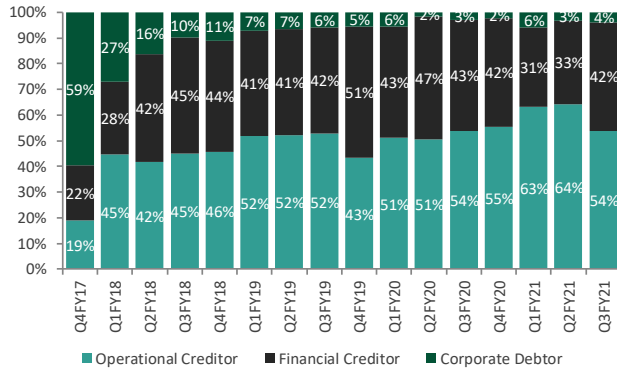
The number of cases admitted for Corporate Insolvency Resolution Processes (CIRPs) over the last 15 quarters has increased significantly, and has been generally increasing every quarter, with a major portion of these cases being admitted over the last nine quarters, thereby highlighting the rising acceptance of IBC as an effective debt resolution mechanism. However, the cases admitted slowed down in 9MFY21 (283 cases) compared with 1,517 cases admitted in 9MFY20. The December-end quarter witnessed a drop of around 83% compared with the previous year. This can be attributed to the suspension of fresh bankruptcy proceeding for Covid-19 defaults which ended on March 24, 2021.

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



Source: IBBI

**Figure 2: Cumulative initiation of CIRPs**

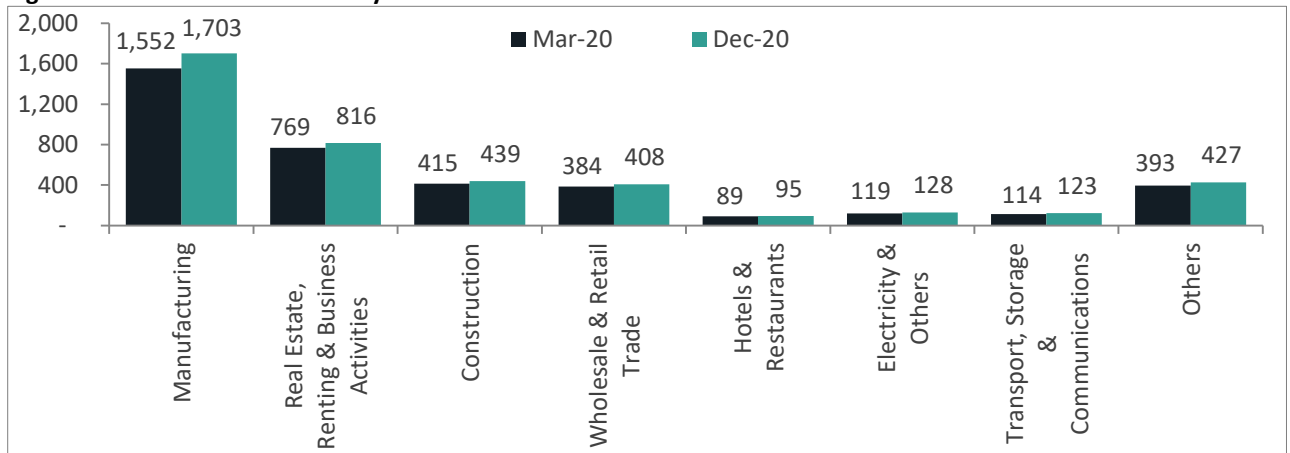


Source: IBBI

As seen in Figure 1, it can be observed that the IBC has continued to gain in popularity, with over 4,000 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 remained at similar level as witnessed in the previous year, while financial creditors' share declined marginally by 1% and the share of corporate debtors increased marginally (1%) at the end of Q3FY21.

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 (11%) and trading sectors (10%). The sectors have largely remained constant compared with the quarter ended March 2020.

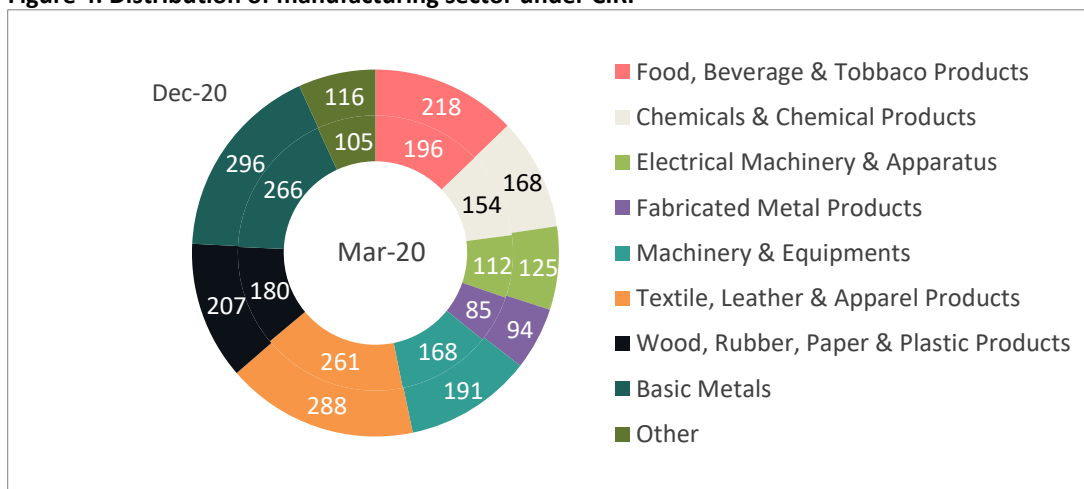
**Figure 3: Cumulative # of CIRPs by sector**



Source: IBBI

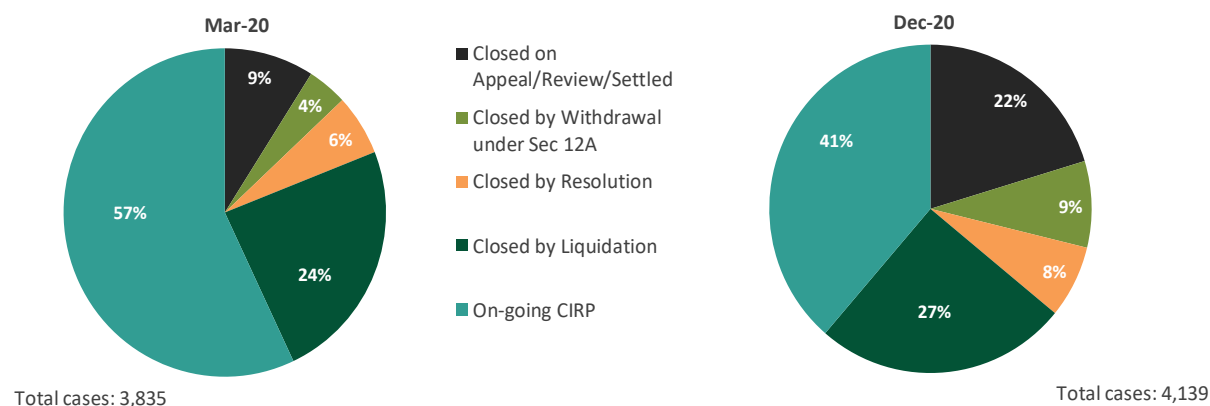
Within the manufacturing domain, 'textile, leather & apparel products' and 'basic metals' both accounting for 7% each (similar in quarter ended Mar-20), continue to have the largest cumulative number of cases admitted under the IBC in the quarter ended December 2020.

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



Source: IBBI

**Figure 5: Status of CIRPs**



Source: IBBI

**Of the total 4,139 cases admitted into CIRP at the end of December 2020:**

- 41% of the cases continue to remain in the resolution process against 57% as at the end of March 2020.
- 1,126 cases have ended into liquidation (i.e. 27% of the total cases admitted, marginally higher compared with quarter ended March 2020 level). Over two-third of these cases (around 830 CIRPs) were BIFR / non-operational companies or those where the resolution value was less than or equal to the liquidation value.
- Around 22% (901 CIRPs) of the cases have been closed on appeal or review or settled compared with 9% in March-2020.
- 8% of the cases have been withdrawn under Section 12A: A significant number of such cases (47%) were less than Rs.1 crore. The primary reason has been either the full settlement with the applicant which has increased to 37% against 24% as at end of March 2020 or other settlement with creditors (21%).
- Only 8% of the total cases have ended in approval of resolution plans.

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

Particulars	Amt/%		
	Upto March 2020	For Q3FY21	Upto Dec 2020
Total admitted claims of Financial Creditors (Rs cr)	3,84,436.7	60,922.0	4,95,970.5
Liquidation value (Rs cr)	96,349.5	5,865.7	1,08,637.7
Realisable by FCs (Rs cr)	1,76,673.7	7,673.3	1,97,364.1
Realizable by FCs as a % of their claims admitted	45.9	12.6	39.8
Realisable by FCs as a % of their liquidation value	183.4	130.8	181.7

Source: IBBI

In the past, recovery rate in India was as low as 26 cents to a 1 USD (ie 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 39.8%. However, the recovery for Q3FY21 has dipped to 12.6%, which is significantly lower than 64.1% reported in quarter ended March 2020.

Of the total claims which were settled via liquidation with an admitted claim amount of Rs.97.3 crore in Q3FY21, the realisable value was only Rs.20.3 crore (around 21% 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 nine companies have been approved, while liquidation orders were passed against two companies.

**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.	12,641	2,615	21%	170%	Deccan Value Investors L.P. and DVI PE (Mauritius) Ltd (#)
Era Infra Engineering Ltd.	Under CIRP				
Lanco Infratech Ltd.	Under Liquidation				
ABG Shipyard Ltd.	Under Liquidation				

Note: # Final settlement pending; Source: IBBI

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