

## IBC Update – Cases admitted drop by ~85% over last Sept with liquidation accounting for a larger share than resolution

**Contact:**

**Sanjay Agarwal**  
Senior Director  
sanjay.agarwal@careratings.com  
+91-22- 6754 3582  
Mob No: + 91 810 800 7676

**Saurabh Bhalerao**  
Associate Director – BFSI Research  
saurabh.bhalerao@careratings.com  
+91-22-6754 3519  
Mob No: +91 900 495 2514

**Shobhna Kanojia**  
Deputy Manager – BFSI Research  
shobhna.kanojia@careratings.com  
+91-22-6754 3631  
Mob No: +91 816 945 9228

**Mradul Mishra (Media Contact)**  
mradul.mishra@careratings.com  
+91-22-6837 4424

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### Overview

In the wake of Covid-19 pandemic across India, the Insolvency and Bankruptcy Board of India (IIBI) has undertaken several measures to mitigate impact 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 government 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.

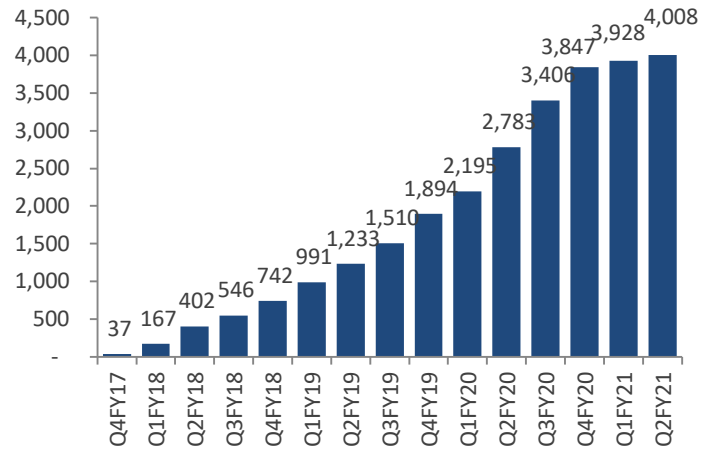
### Key changes to the IBC regulations in Q2FY21

The economic fallout due to COVID-19 pandemic has led to significant financial stress for borrowers across the board which may impact the long-term viability of many firms. Considering this situation with the intent to facilitate revival of real sector activities and mitigate the impact on the ultimate borrowers, RBI provided a window under the ‘Prudential Framework, vide circular dated August 6, 2020’, to enable the lenders to implement a resolution plan in respect of corporate borrowers having stress on account of COVID-19, without change in ownership, while classifying such exposures as Standard, subject to specified conditions. This framework excludes exposures to financial sector entities as well as central government, state government and municipal bodies (Refer report “[Short Note on RBI's Loan Restructuring Schemes](#)”).

Furthermore, as per the notification dated September 24, 2020 (“Insolvency and Bankruptcy Code Ordinance, 2020”), the government has extended the suspension of insolvency cases against fresh Covid-19 related defaults by a period of three months from September 25, 2020.

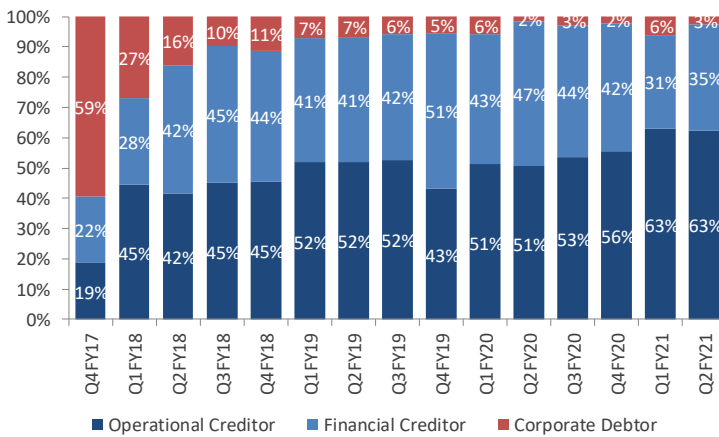
The number of cases admitted for Corporate Insolvency Resolution Processes (CIRPs) over the last 14 quarters has increased significantly, and has been generally increasing every quarter, with a major portion of these cases being admitted over the last eight quarters, thereby highlighting the rising acceptance of IBC as an effective debt resolution mechanism. However, the cases admitted slowed down in H1FY21 (161 cases) compared with 889 cases admitted in H1FY20. The Sept-end quarter witnessed a drop of around 85% compared with the previous year. This can be attributed to the suspension of fresh bankruptcy proceeding for Covid-19 defaults.

Figure 1: Cumulative # of CIRPs admitted



Source: IBBI

Figure 2: Cumulative initiation of CIRPs

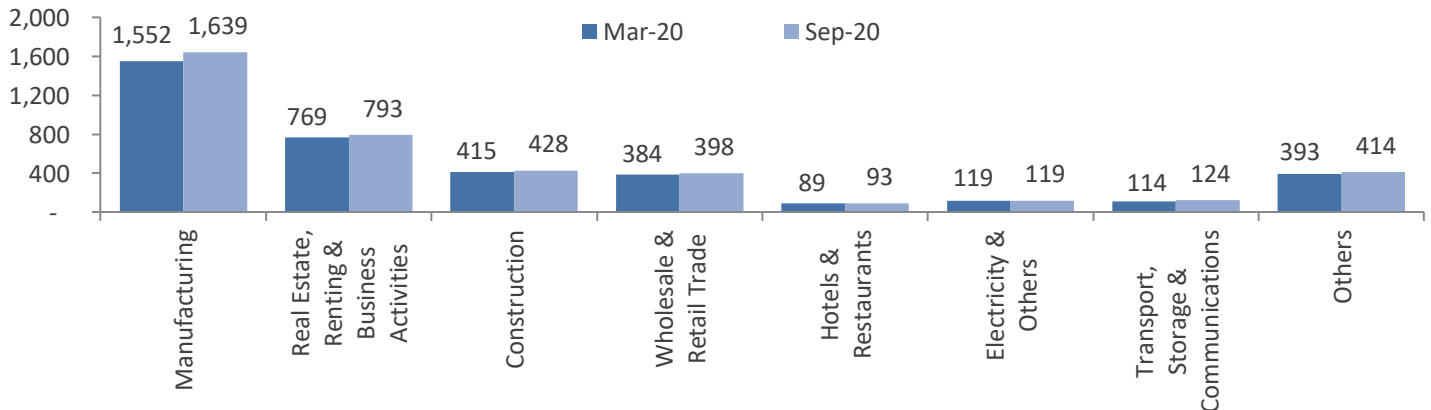


It can be observed that the IBC has continued to gain in popularity, with over 4,000 companies being admitted and a significant number of these cases on a cumulative basis being filed by the operational creditors followed by the financial creditors. The cumulative share of operational creditors increased from 51% at the end of Q2FY20 to 63% at the end of Q2FY21, while financial creditors' share declined to 35% against 47% at the end of Q2FY20 while the share of corporate debtors remained largely 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 quarter ended Mar-20.

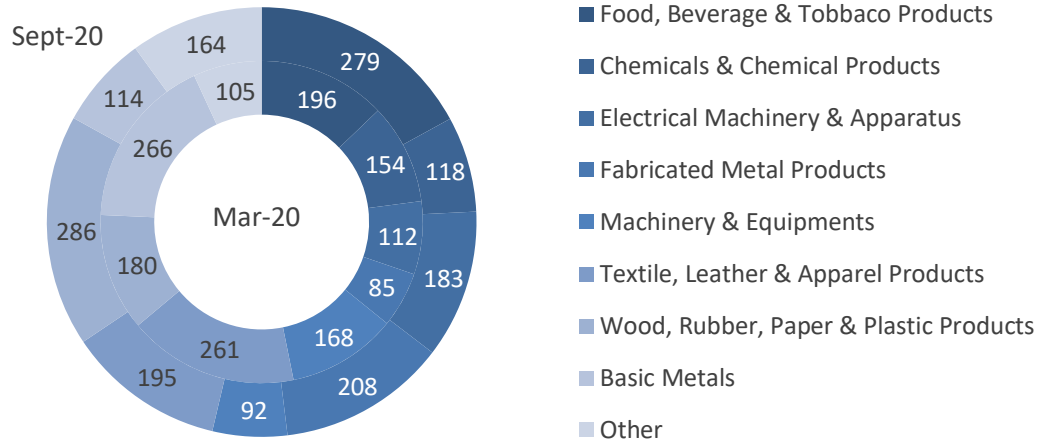
Figure 3: Cumulative # of CIRPs by sector



Source: IBBI

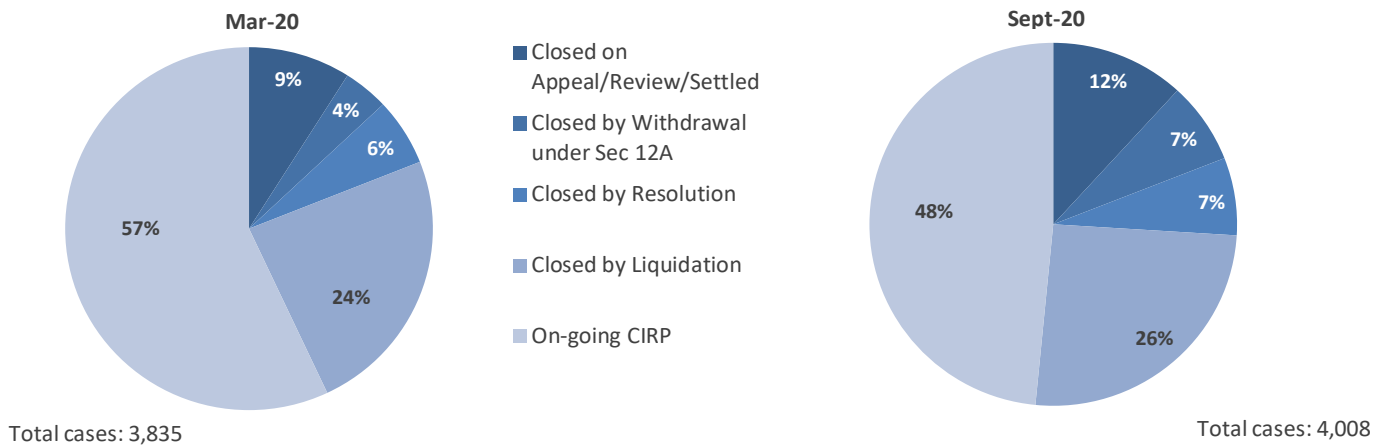
Within the manufacturing domain, ‘food, beverage & tobacco products’ and ‘wood, rubber, paper & plastic products’ both accounting for 7% each, continue to have the largest cumulative number of cases admitted under the IBC in quarter ended Sept-20.

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



Source: IBBI

**Figure 5: Status of CIRPs**



Source: IBBI

**Of the total 4,008 cases admitted into CIRP at the end of Sept 2020:**

- 48% of the cases continue to still remain in the resolution process against 57% as at end of Mar-20.
- 1,025 have ended into liquidation (i.e. 26% of the total cases admitted, marginally higher compared with quarter ended Mar-20 level). Over two-third of these cases (around 751 CIRPs) were BIFR / non-operational companies or those where the resolution value was less than or equal to the liquidation value.
- Around 12% (473 CIRPs) of the cases have been closed on appeal or review or settled.
- 7% 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 34% against 24% as at end of Mar-20 or other settlement with creditors (24%).
- Only 7% of the total cases have ended in approval of resolution plans.

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

Particulars	Amt/%	
	For Q2FY21	Upto Sept 2020
Total admitted claims of Financial Creditors (Rs cr)	18,336.56	4,34,375.49
Liquidation value (Rs cr)	2,605.47	1,02,194.10
Realisable by FCs (Rs cr)	3,778.81	1,89,211.99
Realizable by FCs as a % of their claims admitted	20.6	43.6
Realisable by FCs as a % of their liquidation value	145.0	185.2

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 43.6%. However, the recovery for Q2FY21 has dipped to 20.6%, which is significantly lower than 64.1% reported in quarter ended Mar-20.

Of the total claims which were settled via liquidation with an admitted claim amount of Rs.115.7 crores in Q2FY21, the realisable value was only Rs.10.3 crores (around 9% 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

### CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457  
E-mail: [care@careratings.com](mailto:care@careratings.com) | Website: [www.careratings.com](http://www.careratings.com)

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