

Debt Recovery Rate Stuck at ~30% while Timelines Continue to Increase

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Synopsis

- After slowing in the pandemic period of FY21 and FY22, the number of insolvency cases referred has increased by 20% y-o-y in Q1FY24. However, despite the increase, the number of cases admitted to the insolvency process continued to be lower compared to earlier quarters in FY20. The distribution of cases across sectors continues to remain broadly similar, compared to earlier periods given the extended resolution timelines.
- The overall recovery rate till Q1FY24 was 31.62% implying a haircut of approximately 68%. The cumulative recovery rate has been on a downtrend, decreasing from 43% in Q1FY20 and 32.9% in Q4FY22 as larger resolutions have already been executed and a significant number of liquidated cases were either BIFR cases and/or defunct with high-resolution time. Further, the average time taken for resolution or liquidation continues to increase for operational creditors (OCs) and financial creditors (FCs) during the June quarter.

Recovery Rate Continues to be Stuck at Approximately 30%

Figure 1: Summary of CIRPs Yielding Resolution

Particulars	Amt/%	
	For Q1FY24	Up to Jun. 2023
Total admitted claims of Financial Creditors (Rs cr)	23,046.0	922,660.3
Liquidation value (Rs cr)	4,805.8	174,513.4
Realisable by FCs (Rs cr)	6,790.7	291,759.7
Realizable by FCs as a % of their claims admitted	29.5	31.62
Realisable by FCs as a % of their liquidation value	141.3	167.18

Source: IBBI

Post the implementation of the IBC, the overall recovery rate till Q4FY22 in India reached 32.9%. The recovery rate for Q1FY24 stood at 29.5%, while the overall recovery rate reached 31.62% till Q1FY24. Consequently, for the cases which have been resolved, the creditors have continued to face a haircut of approximately 68% on admitted claims.

Timelines Continue to Increase...

The delays for CIRP closure are higher compared to Liquidation across various categories of stakeholders, but the corporate debtors take somewhat less time for resolution compared to the other two stakeholders (financial creditor and operational creditor). On a sequential basis, the number of days has increased across all categories.

Figure 2: Timeline of Cases (# of days)

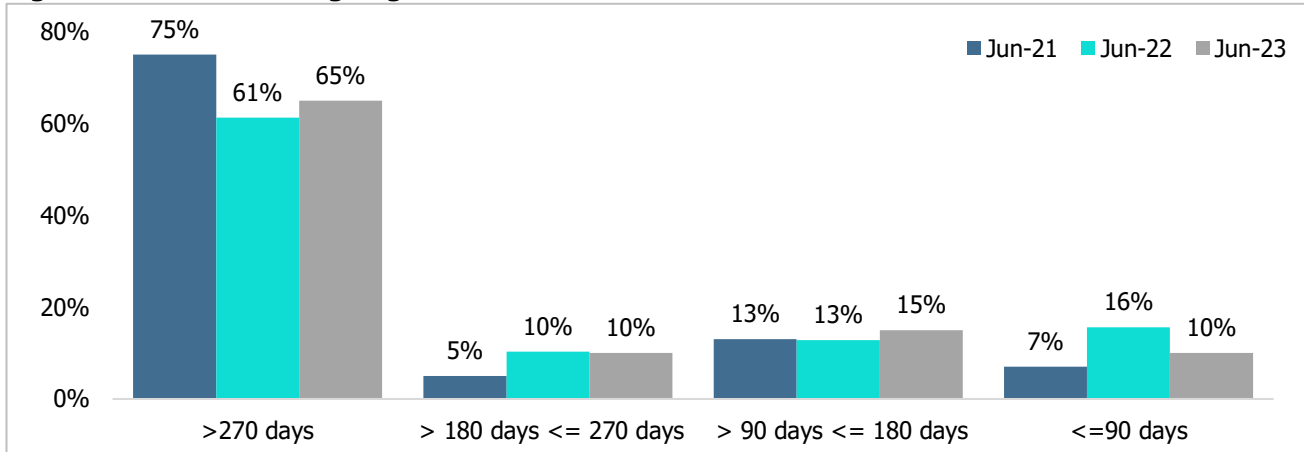
	Resolution				Liquidation			
	FC	OC	CD	Total	FC	OC	CD	Total
Jun-23	643	625	541	632	480	458	391	462
Jun-22	552	555	518	550	447	418	390	428
Mar-23	613	632	541	614	476	450	390	456
Mar-22	531	528	516	528	433	401	373	412
Mar-21	463	458	439	459	366	344	324	351

Source: IBBI

...For Resolution across the board...

Of the over 2,100 ongoing CIRPs, there has been a delay of more than 270 days for the completion of the process of 65% of ongoing CIRPs in June 2023 as compared to 75% in June 2021 and 61% in June 2022. The share has remained broadly the same on a sequential quarter basis. Further, we can observe that the 'more than 90 days but less than 180 days' segment is the second largest indicating that new cases have commenced in the last quarter, while a lower number of cases have started in the current quarter, while the other two categories continue to have quite a few cases in them highlighting the significant delays in the process.

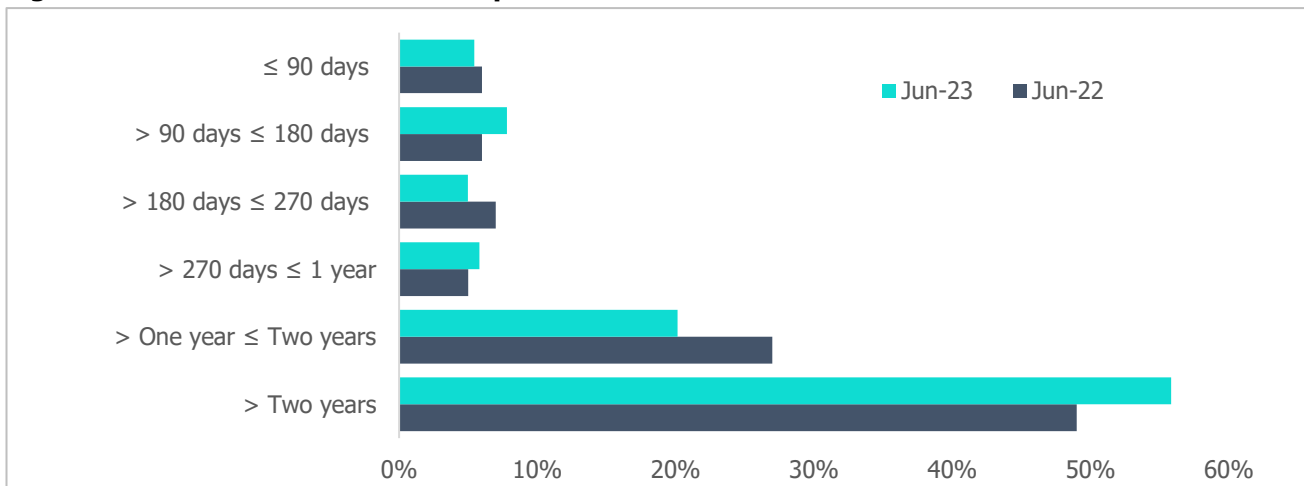
Figure 3: Timeline of Ongoing CIRPs



Source: IBBI

...and Even Time for Liquidation Remain Elevated

Figure 4: Timeline of Cases under Liquidation

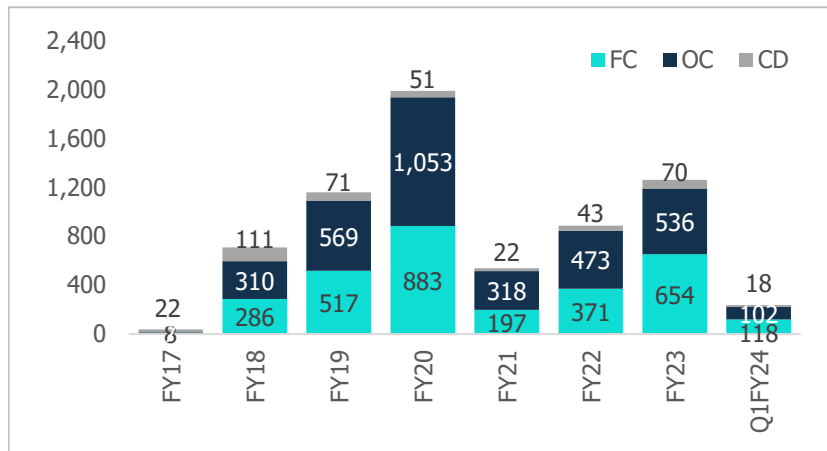


Source: IBBI

Figure 4 highlights the pendency even for cases which have gone into liquidation with nearly 56% of the cases pending for more than two years and another 20% of the cases pending for more than one year.

Additions to the Corporate Insolvency Resolution Process Continue to Grow at a Slower Pace

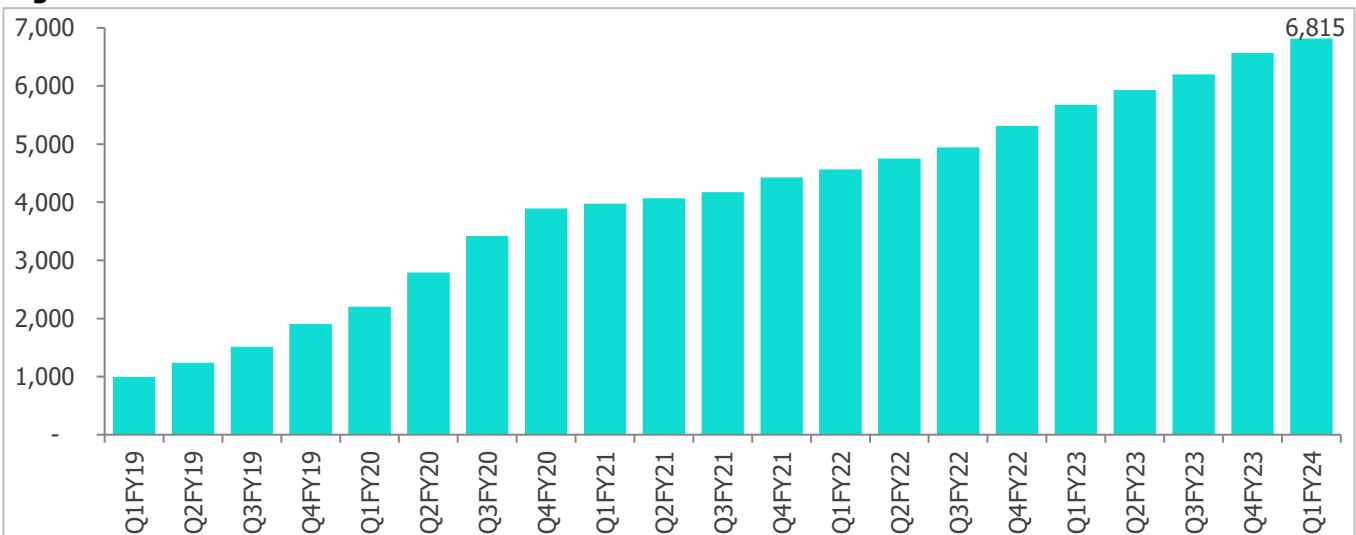
Figure 5: Year-wise & Stakeholder Initiation



The CIRP initiation scaled up rapidly till FY20 and dropped off in FY21 due to the pandemic. In FY22 and FY23, CIRP initiation commenced rising again. In FY23, the number of cases crossed the FY19 threshold, and the growth has continued in Q1FY24. The share of CIRPs initiated by corporate debtors has reduced significantly over time and is now initiated primarily in cases where the defaults are quite high.

Source: IBBI

Figure 6: Cumulative # of CIRPs Admitted

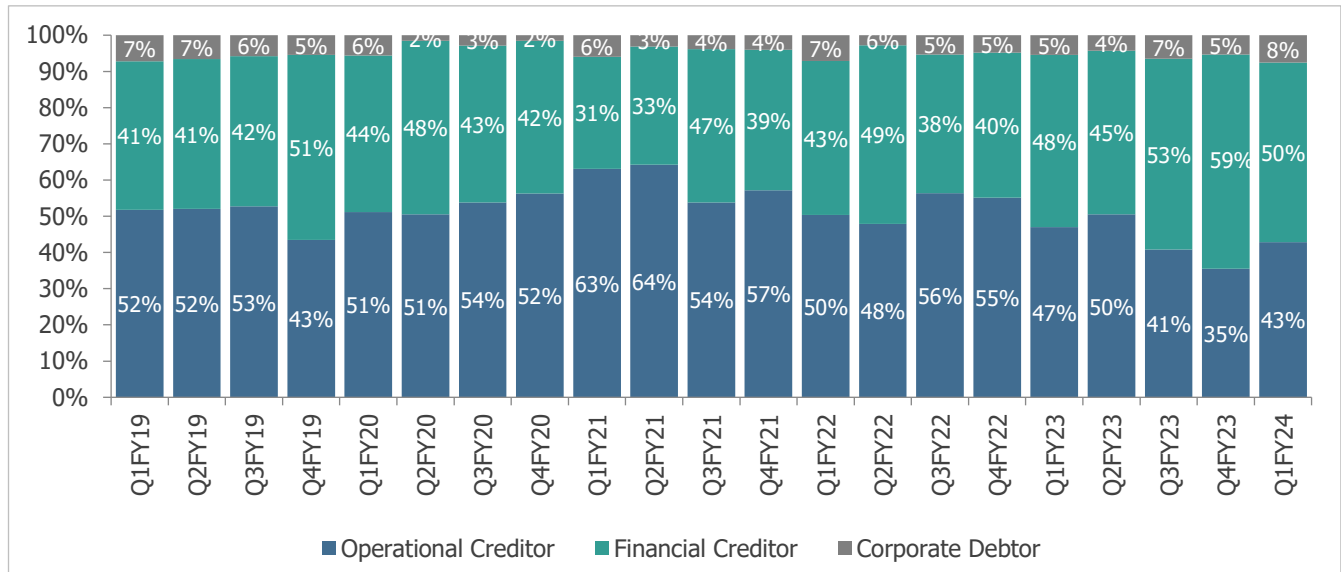


Source: IBBI

The number of cases admitted for Corporate Insolvency Resolution Process (CIRPs) has increased each quarter since the launch of the Insolvency and Bankruptcy Code in 2016., highlighting the rising acceptance of IBC as an effective debt resolution mechanism. The admission of cases has increased y-o-y in Q1FY24 by around 20%, however, despite the increase, the number of cases admitted to the insolvency process continues to be lower compared to earlier quarters in FY20.

IBC has continued to gain in popularity, with over 6,800 companies being admitted and a significant number of these cases on a cumulative basis till March 2023 being filed by the financial creditors (3,034 cases) and the operational creditors (3,369 cases). The share of corporate debtors has continued to remain the smallest over the same period.

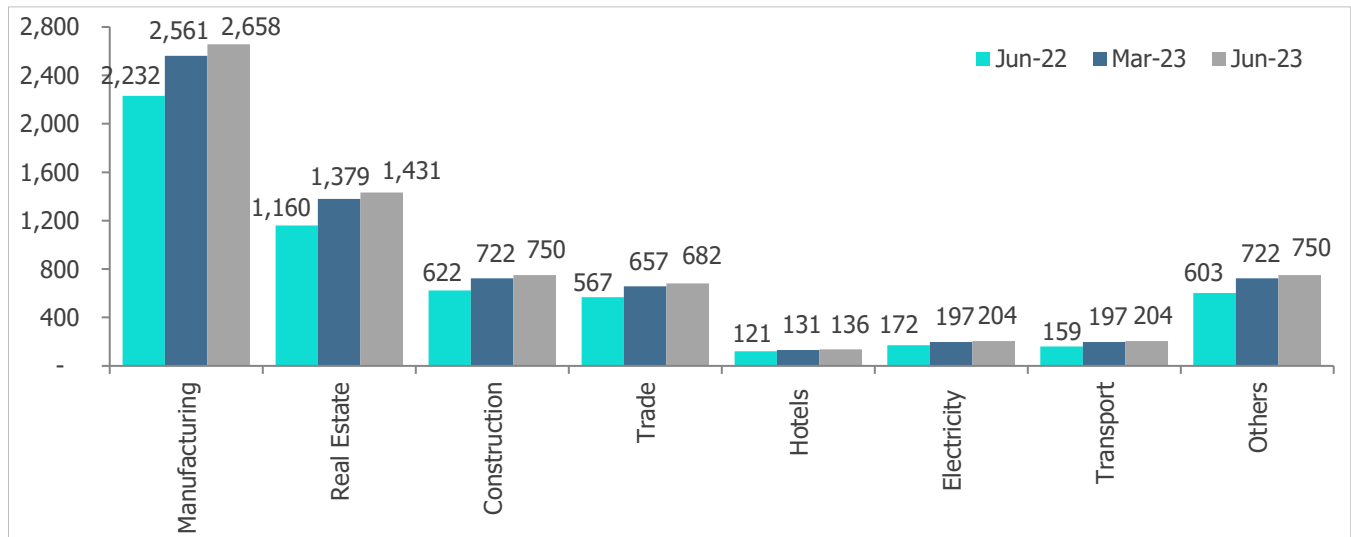
Figure 7: Stakeholder-wise Distribution of CIRPs During the Quarter



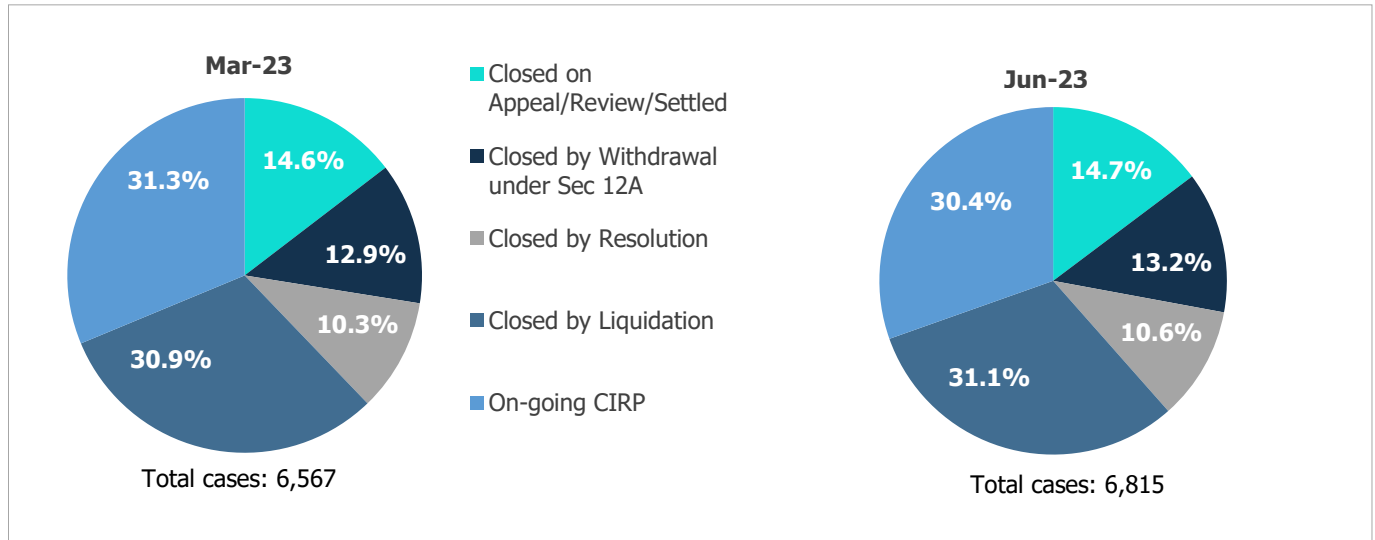
Source: IBBI

Figure 8 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 8, the manufacturing sector accounts for the highest share at 39% of the overall cases, followed by the real estate (21%), construction (11%) and trade (wholesale & retail) sectors (10%).

Figure 8: Cumulative # of CIRPs by Sector



Source: IBBI

Figure 9: Status of CIRPs

The status of the cases has largely remained constant compared with the previous period. Of the total 6,815 cases admitted into CIRP at the end of June 2023:

- Only ~11% have ended in approval of resolution plans, while 30.4% remain in the resolution process vs. 31.3% as of the end of March 2023.
- 2,120 have ended in liquidation (31.1% of the total cases admitted). Meanwhile, 77% of such cases were either BIFR cases and/or defunct.
- Around 15% (1,005 CIRPs) have been closed on appeal /review /settled, while 13.2% have been withdrawn under Section 12A. A significant number of withdrawn cases (around 55%) were less than Rs.1 crore, while the primary reason for withdrawal has been either the full settlement with the applicant (336 cases) or other settlement with creditors (244 cases).

Update on Insolvency Resolution of Personal Guarantors

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

Figure 10: 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	21	3,289.9	24	3,339.5	23	1
FY21	23	2,485.9	239	37,632.8	262	40,118.8	256	6
FY22	85	3,397.6	858	62,659.2	943	66,056.7	928	15
FY23	65	10,387.3	645	35,716.4	710	46,103.8	710	0
Q1FY24	32	1,300.2	68	2,505.8	100	3,805.9	100	0
Total	208	17,620.7	1,831	141,804.0	2,039	159,424.7	2,017	22

Source: IBBI

Of the above 2,039 applications.

- 75 were withdrawn/rejected/dissmissed before the appointment of a resolution professional.
- Resolution professionals were appointed in 890 cases.
 - 253 cases have been admitted. Out of these cases, 63 have been closed, 6 have withdrawn, 43 have been closed due to non-submission/rejection of plans and only 14 have yielded approval of repayment plans.
 - 52 cases have been withdrawn/rejected/dissmissed.

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 11: Status of Avoidance Transactions

Nature of Transactions	Applications Filed		Applications Disposed		
	#	Amount (Rs cr)	#	Amount inv. (Rs cr)	Amount rec. (Rs cr)
Preferential	140	15,053.5	48	798.9	34.7
Undervalued	17	891.1	5	362.4	5.8
Fraudulent	209	71,696.8	34	1,169.3	5.6
Extortionate	3	70.7	1	0.1	-
Combination	578	207,876.9	112	42,540.6	5,170.6
Total	947	295,588.9	200	44,871.2	5,216.7

Source: IBBI

As per Figure 11, RPs have filed 947 applications for avoidance transactions amounting to approximately Rs 2.95 lakh crore. Of these, only 200 transactions involving over Rs 44,000 crore (approximately 15.2% of the amount involved) were disposed of and only Rs 5,216.7 crore (11.6% of the amount disposed) have been recovered. Further, in one case 758 acres of land out of 858 acres which was earlier valued at approximately Rs. 5,500 crore has been transferred; hence proportionate value has been considered.

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