

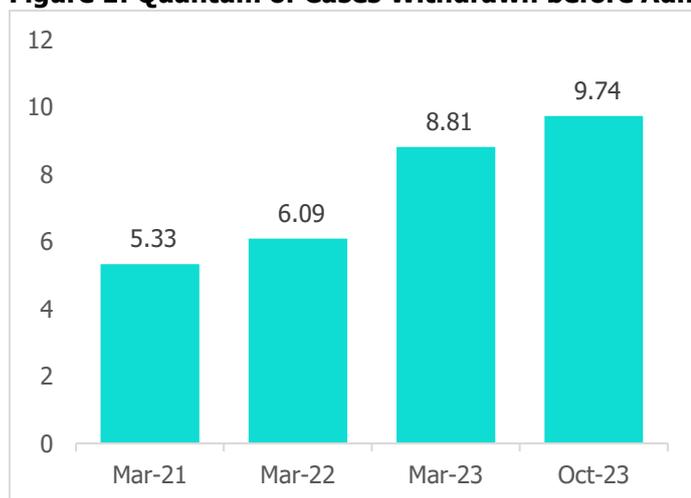
Recovery Rate Reduces for Q3FY24, while Timelines Continue to Rise

February 23, 2024 | BFSI Research

Synopsis

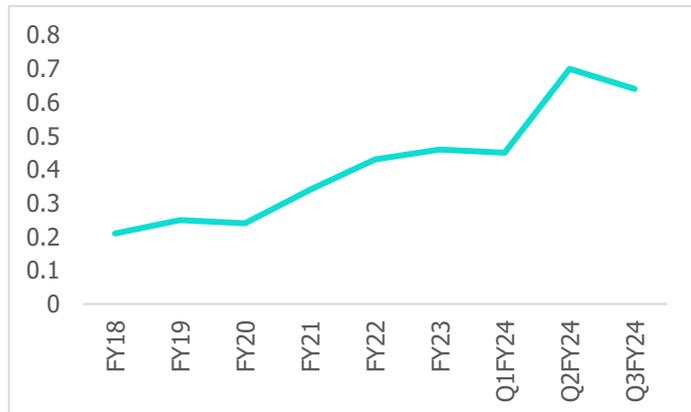
- The IBC seems to be incentivising debtors to settle their defaults even before the cases are admitted under the code with over 27,500 applications for initiation of CIRPs with an underlying default of Rs 9.74 lakh crore were withdrawn before their admission. Another measure of the effectiveness of the code is the ratio of resolution to liquidation. With several initiatives to improve outcomes, the ratio has improved from 0.21 in FY18 to 0.64 in Q3FY24.
- The average time taken for resolution or liquidation continues to increase for operational creditors (OCs) and financial creditors (FCs) during the December quarter. Meanwhile, the overall recovery rate till Q3FY24 was 31.86% 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.
- After slowing in the pandemic period of FY21 and FY22, the number of insolvency cases referred has increased by around 19% y-o-y in Q2FY24. 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 remains broadly similar, compared to earlier periods given the extended resolution timelines.
- Meanwhile, the number of ongoing CIRPs has declined on a y-o-y as well as sequential basis indicating that cases have been disposed at a faster pace compared to their admission. Furthermore, manufacturing too accounts for the largest number of cases, albeit its share has steadily reduced.

Figure 1: Quantum of Cases Withdrawn before Admission (Rs lakh crore)



The IBC seems to be incentivising debtors to settle their defaults even before the cases are admitted under the code with over 27,500 applications for initiation of CIRPs with an underlying default of Rs 9.74 lakh crore were withdrawn before their admission.

Source: IBBI

Figure 2: Ratio of Resolution to Liquidation orders (# of cases)

Another measure of the effectiveness of the code is the ratio of resolution to liquidation. With several initiatives to improve outcomes, the ratio has improved from 0.21 in FY18 to 0.64 in Q3FY24.

Insolvency Resolution of Personal Guarantors

Apart from the details on the corporate insolvency process which have been covered later, figure 3 contains details on the insolvency resolution and bankruptcy proceedings related to personal guarantors. The Supreme Court ruling implies that the personal assets of guarantors can now be utilised to settle outstanding debts owed to creditors and which is likely to increase the recovery covered under personal guarantors.

Figure 3: Insolvency Resolution of Personal Guarantors

Period	Applications filed by				Total		Adjudicating Authority	
	Debtors		Creditors					
	No of Cases	Rs crore	No of Cases	Rs crore	No of Cases	Rs crore	NCLT	DRT
FY20	3	49.7	22	3,289.9	25	3,339.5	24	1
FY21	23	2,485.9	239	37,632.8	262	40,118.8	256	6
FY22	86	3,397.6	884	64,363.2	970	67,760.8	955	15
FY23	70	10,396.9	717	37,428.6	787	47,825.5	786	1
Q1FY24	37	1,364.4	85	3,238.4	122	4,602.8	122	-
Q2FY24	65	279.7	125	3,061.3	190	3,341.0	163	27
Q3FY24	50	1,274.5	61	2,980.8	111	4,255.2	111	-
Total	334	19,248.7	2,133	151,994.9	2,467	171,243.7	2,417	50

Source: IBBI

Of the above 2,467 applications.

- 87 were withdrawn/rejected/dismissed before the appointment of a resolution professional.
 - Resolution professionals were appointed in 1,065 cases, while 296 cases have been admitted.
 - Out of these cases, 101 have been closed, 12 have withdrawn, 68 have been closed due to non-submission/rejection of plans.
 - On an aggregate basis, only 21 have yielded approval of repayment plans and have realised Rs 91.27 crore which is 5.22% of their approved claims, which is the same sequentially. 62 cases have been withdrawn/rejected/dismissed.

Corporate Resolutions

Timelines Continue to Increase for Cases across the Board...

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.

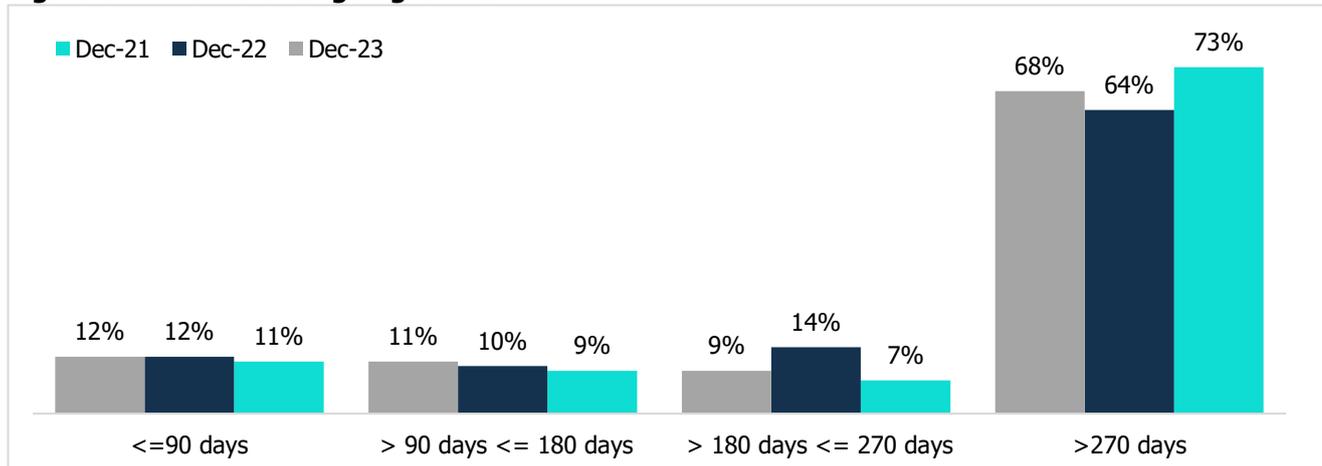
Figure 4: Timeline of Cases (# of days)

	Resolution					Liquidation			
	FC	OC	CD	FiSP	Total	FC	OC	CD	Total
Dec-23	677	686	569	632	671	496	492	414	486
Sep-23	659	662	563	632	653	493	468	394	472
Jun-23	643	635	541	552	632	480	458	391	462
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

Of the close to 1,900 ongoing CIRPs, there has been a delay of more than 270 days for the completion of the process of 68% of ongoing CIRPs in December 2023 as compared to 73% in December 2021 and 64% in December 2022. The share has broadly moved to the higher number of days tier. Further, we can observe that the 'more than 180 days but less than 270 days' segment is the smallest highlighting the fact that while more cases are being added and earlier cases too are moving forward, they seem to be delayed in the process. Further, the share of 'more than 90 days but less than 180 days' segment has moved up, while the last segment i.e. less than 90 days has reduced.

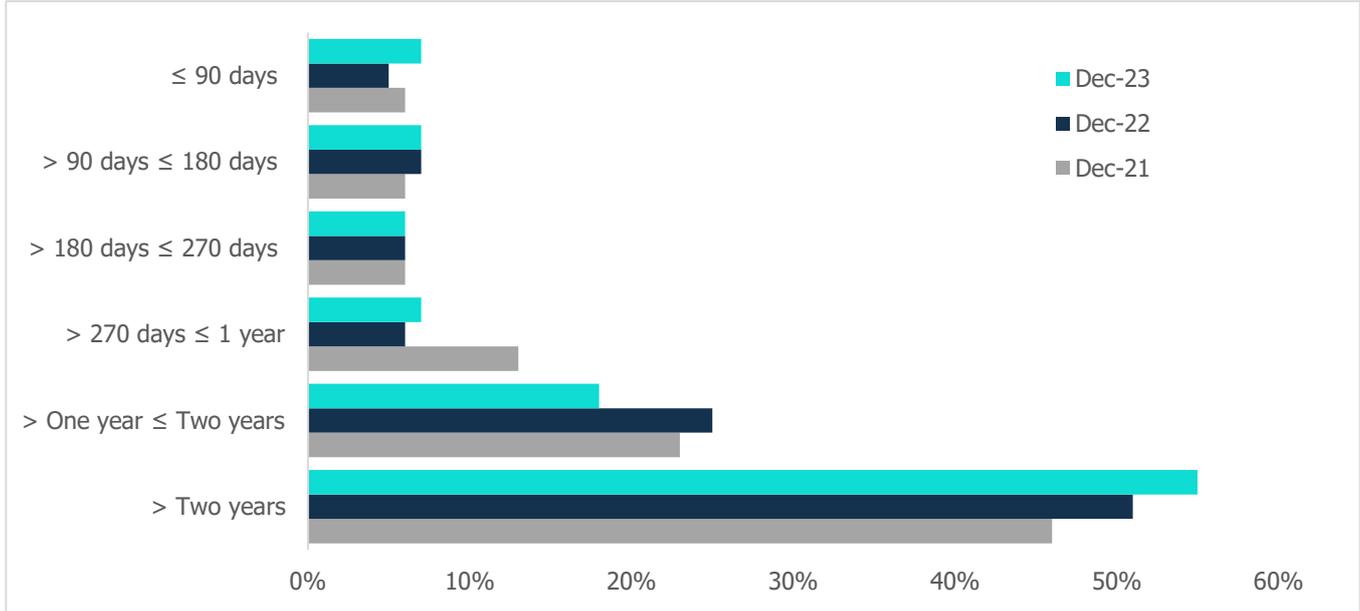
Figure 5: Timeline of Ongoing CIRPs



Source: IBBI

...and Even Time for Liquidation Remain Elevated

Figure 6: Timeline of Cases under Liquidation



Source: IBBI

Figure 6 highlights the pendency even for cases which have gone into liquidation with nearly 55% of the cases pending for more than two years and another 18% of the cases pending for more than one year but less than two years.

While the Recovery Rate Continues to be Stuck at Around 30% with Q3FY24 reduces sequentially

Figure 7: Summary of CIRPs Yielding Resolution

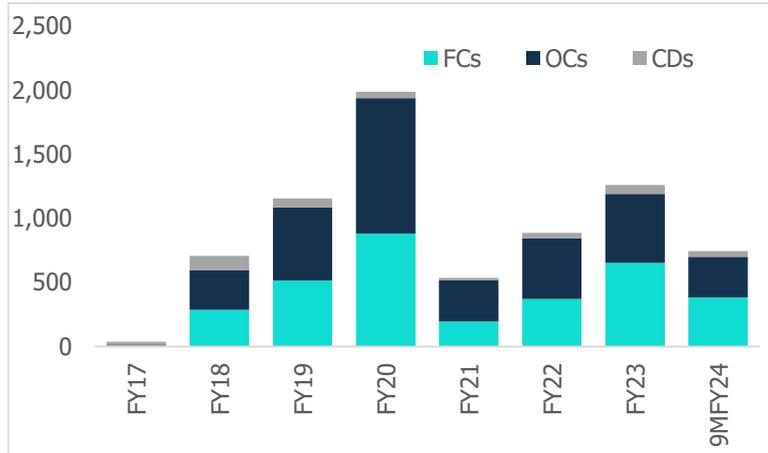
Particulars	Amt/%	
	For Q3FY24	Up to Dec. 2023
Total admitted claims of Financial Creditors (Rs cr)	16,517.9	1,006,910.2
Liquidation value (Rs cr)	3,329.9	190,198.9
Realisable by FCs (Rs cr)	4,281.4	320,760.3
Realizable by FCs as a % of their claims admitted	25.92	31.86
Realisable by FCs as a % of their liquidation value	128.58	86.58

Source: IBBI

Post the implementation of the IBC, the overall recovery rate till Q4FY22 in India reached 32.9%. The recovery rate for Q2FY24 stood at 33.01%, while the overall recovery rate reached 31.86% till Q3FY24. However, the recovery for Q3FY24 has reduced from 33.01 in Q2FY24. Meanwhile, for the cases which have been resolved, the creditors have continued to face a haircut of approximately 68% on admitted claims. Some of the cases being disposed of are several years old. Thus, there is a huge amount of interest and overdue charges admitted to such cases, inflating the overall figures.

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

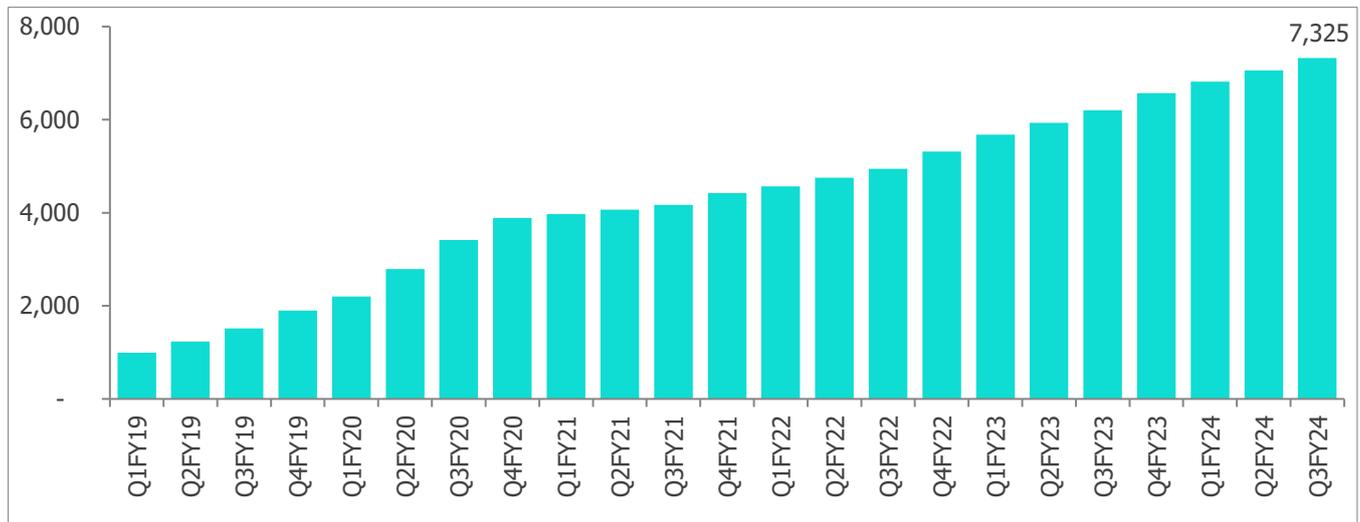
Figure 8: Year-wise & Stakeholder Initiation



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 Q3FY24. The share of CIRPs initiated by corporate debtors has reduced significantly over time and further, the number of cases initiated by Operational creditors has reduced in Q3FY24.

Source: IBBI

Figure 9: Cumulative # of CIRPs Admitted

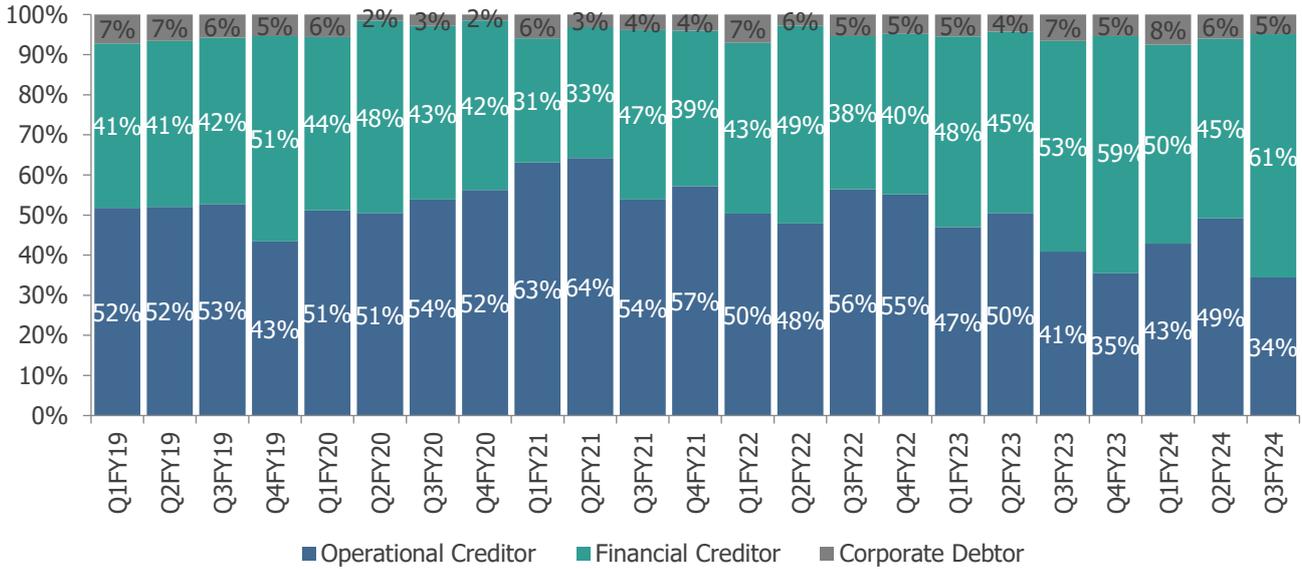


Source: IBBI

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 Q3FY24 by 18.2%, 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 7,300 companies being admitted and a significant number of these cases on a cumulative basis being filed by the financial creditors (3,300 cases) and the operational creditors (3,586 cases). The share of corporate debtors has continued to remain the smallest over the same period.

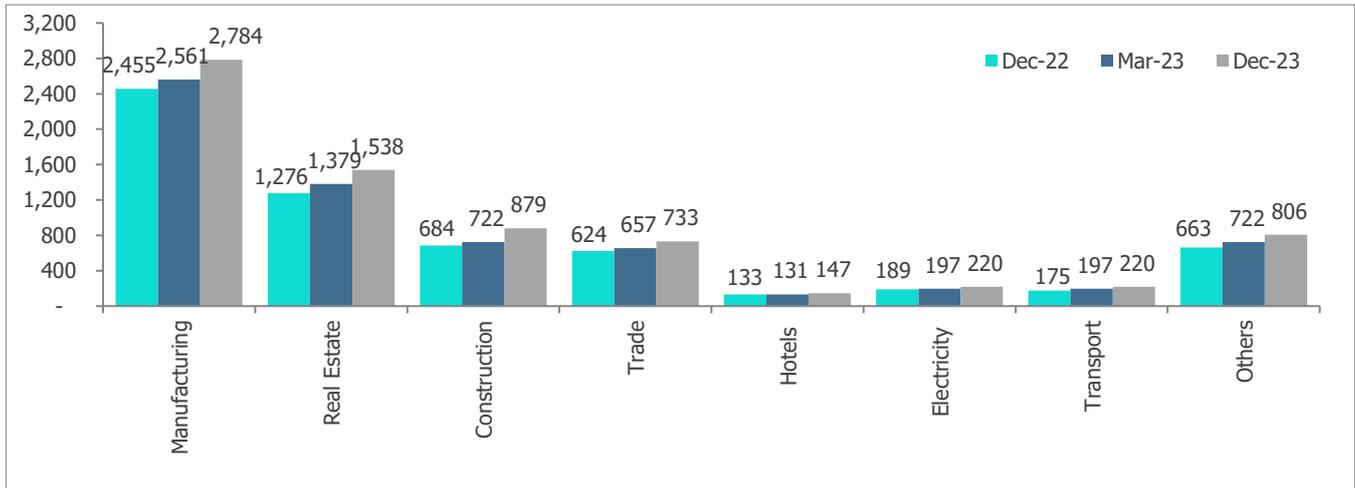
Figure 10: Stakeholder-wise Distribution of CIRPs During the Quarter



Source: IBBI

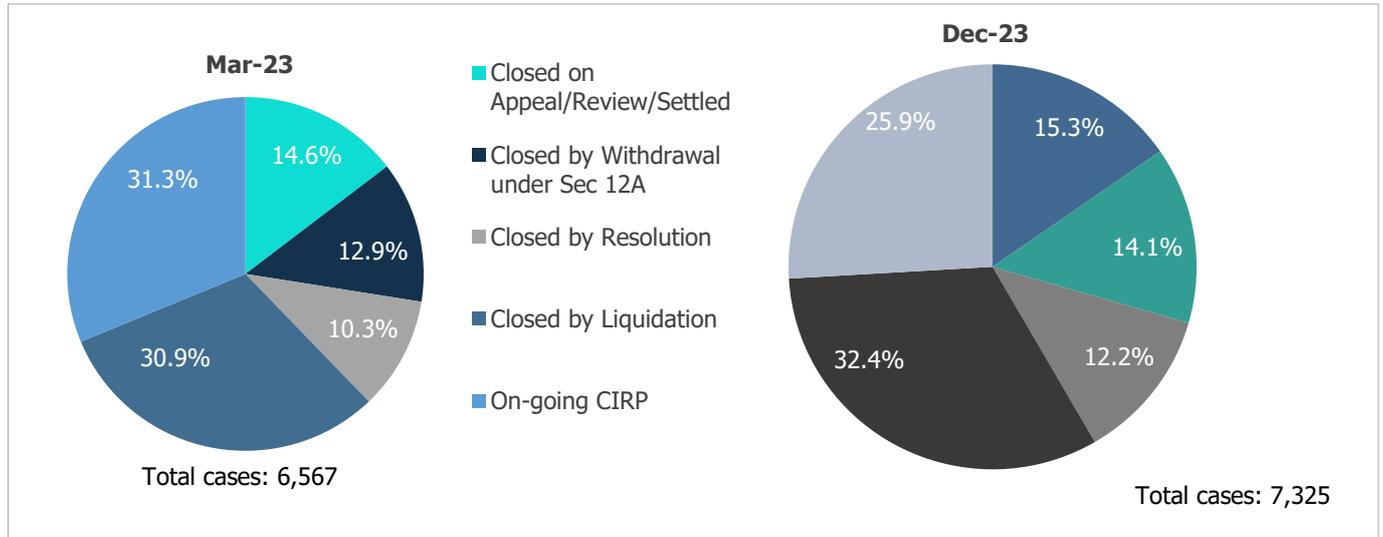
Figure 11 shows the dispersion of the admitted cases by sector. The share of the various sectors has largely remained constant compared with the previous period. As can be observed in Figure 11, the manufacturing sector accounts for the highest share at 38% of the overall cases, followed by the real estate (21%), construction (12%) and trade (wholesale & retail) sectors (10%).

Figure 11: Cumulative # of CIRPs by Sector



Source: IBBI

Figure 12: Status of CIRPs

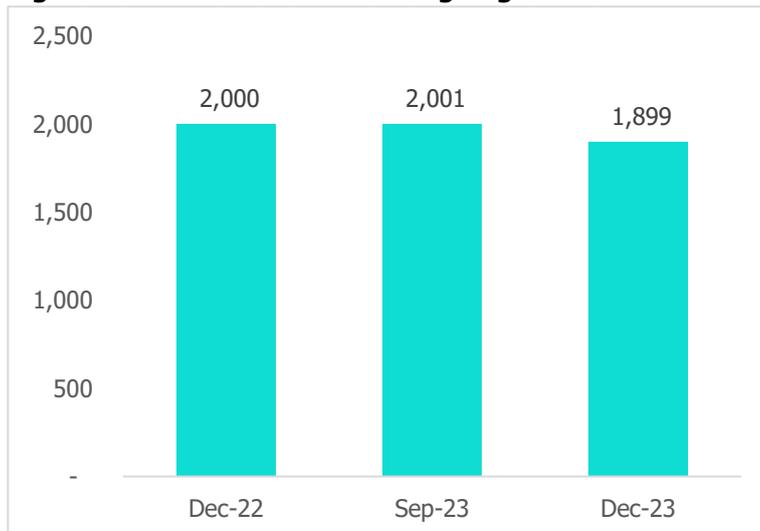


The status of the cases has largely remained constant compared with the previous period. Of the total 7,325 cases admitted into CIRP at the end of December 2023:

- Only ~12% have ended in approval of resolution plans, while 25.9% remain in the resolution process vs. 31.3% as of the end of March 2023.
- 2,376 have ended in liquidation (32.4% of the total cases admitted). Meanwhile, 77% of such cases were either BIFR cases and/or defunct.
- Around 15.3% (1,124 CIRPs) have been closed on appeal /review /settled, while 14.1% have been withdrawn under Section 12A. The primary reason for withdrawal has been either the full settlement with the applicant/creditors (425 cases) or other settlement with creditors (304 cases).

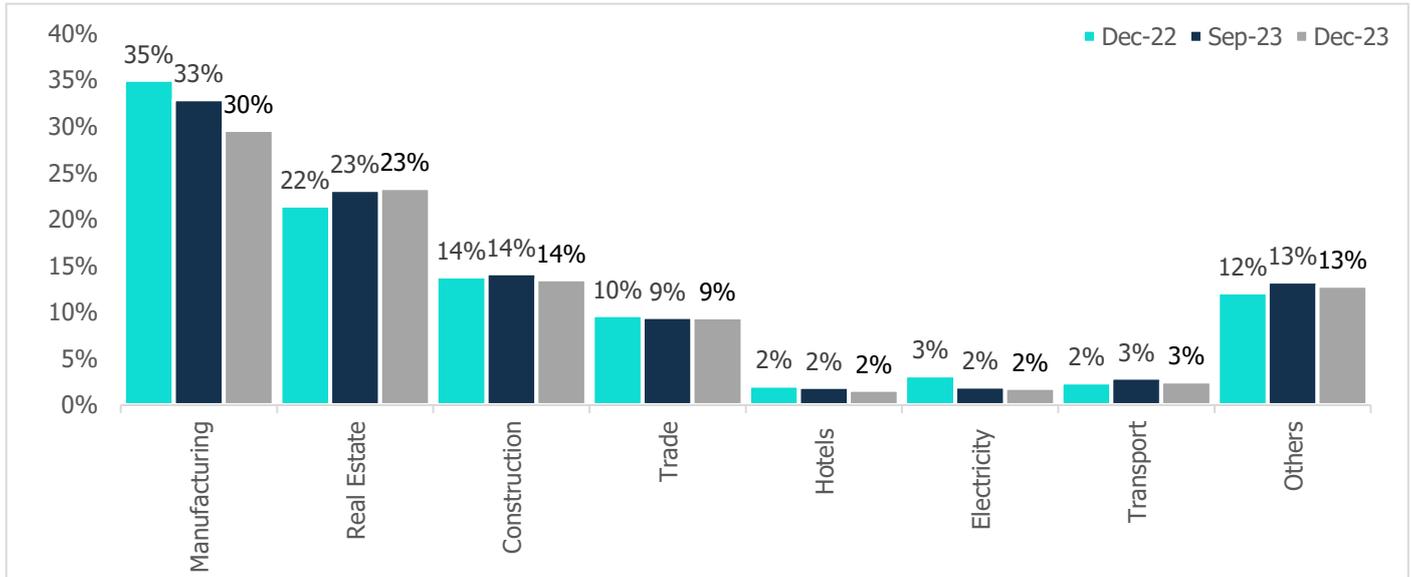
Status of Ongoing CIRPs

Figure 13: Movement in # of Ongoing CIRPs



Despite the steady admission of cases, the number of ongoing CIRPs has declined on a y-o-y as well as sequential basis indicating that cases have been disposed at a faster pace compared to their admission.

Source: IBBI

Figure 14: Ongoing # of CIRPs by Sector

Source: IBBI

Figure 14 shows the dispersion of the ongoing cases by sector. The manufacturing sector accounts for the highest share at 30% of the overall cases and the share has steadily declined, followed by the real estate (23%), construction (14%) and trade (wholesale & retail) sectors (9%).

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 15: Status of Avoidance Transactions

Nature of Transactions	Applications Filed		Applications Disposed		
	#	Amount (Rs cr)	#	Amount inv. (Rs cr)	Amount rec. (Rs cr)
Preferential	160	15,262.8	60	908.9	38.3
Undervalued	26	1,031.9	5	362.4	5.8
Fraudulent	282	99,036.9	49	2,338.8	1,048.6
Extortionate	4	75.7	1	0.09	-
Combination	634	223,742.0	140	43,735.5	5,226.6*
Total	1,106	339,149.4	255	47,345.7	6,319.3*

Source: IBBI

As per Figure 13, RPs have filed 1,106 applications for avoidance transactions amounting to approximately Rs 3.39 lakh crore. Of these, only 255 transactions involving over Rs 47,300 crore (approximately 13.96% of the amount involved) were disposed of and only Rs 6,319.3 crore (13.3% 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.

Contact

Sanjay Agarwal	Senior Director	sanjay.agarwal@careedge.in	+91 - 22 - 6754 3582 / +91 - 81080 07676
Saurabh Bhalerao	Associate Director – BFSI Research	saurabh.bhalerao@careedge.in	+91 - 22 - 6754 3519 / +91 - 90049 52514
Mradul Mishra	Media Relations	mradul.mishra@careedge.in	+91 - 22 - 6754 3596

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Phone : +91 - 22 - 6754 3456 | CIN: L67190MH1993PLC071691

Connect :     

Locations: Ahmedabad | Andheri-Mumbai | Bengaluru | Chennai | Coimbatore | Hyderabad | Kolkata | New Delhi | Pune

About Us:

CareEdge is a knowledge-based analytical group that aims to provide superior insights based on technology, data analytics and detailed research. CARE Ratings Ltd, the parent company in the group, is one of the leading credit rating agencies in India. Established in 1993, it has a credible track record of rating companies across multiple sectors and has played a pivotal role in developing the corporate debt market in India.

Disclaimer:

This report has been prepared by CareEdge (CARE Ratings Limited). CareEdge has taken utmost care to ensure accuracy and objectivity based on information available in the public domain. However, neither the accuracy nor completeness of the information contained in this report is guaranteed. CareEdge is not responsible for any errors or omissions in analysis/inferences/views or for results obtained from the use of the information contained in this report and especially states that CareEdge has no financial liability whatsoever to the user of this report.

