

# IBC Remains Popular Despite Haircuts of ~70%, Delayed Resolution Time

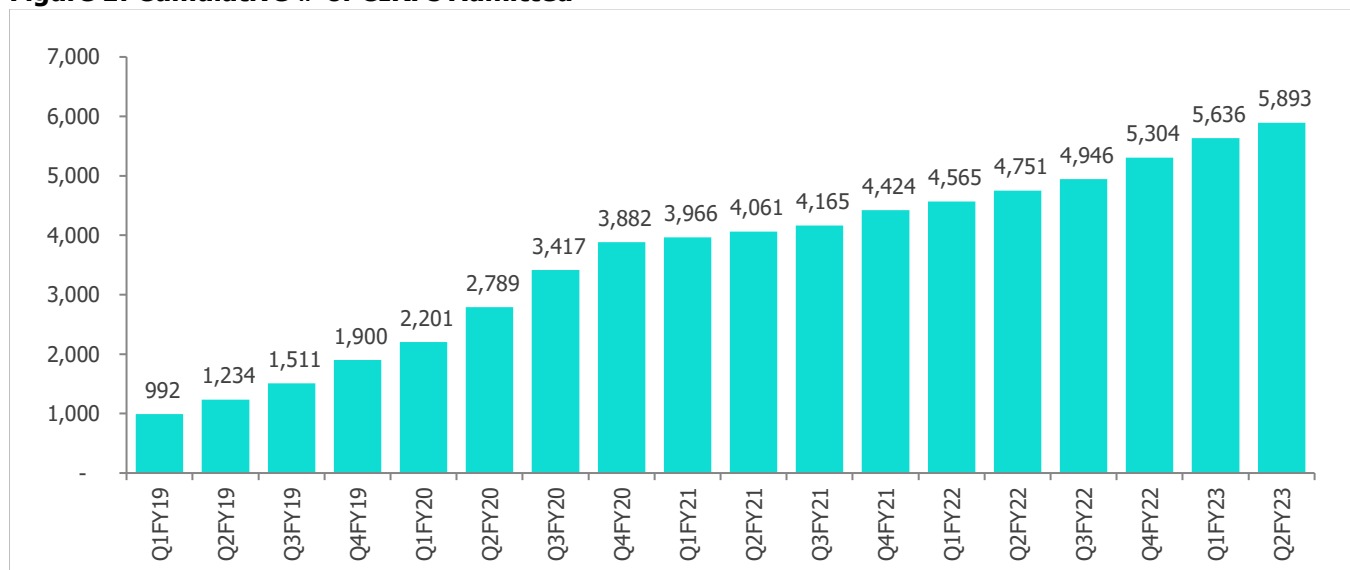
November 17, 2022 | BFSI Research

## Synopsis

- After slowing in H2FY21 and FY22, the number of insolvency cases increased by 24% y-o-y in Q2FY23. However, despite the increase, the number of cases admitted to the insolvency process continued to be lower compared to earlier quarters in FY19/20. The distribution of cases across sectors has remained broadly similar, compared to earlier periods.
- The overall recovery rate till Q2FY23 was 30.8% implying a haircut of approximately 70%. However, 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.

## Corporate Insolvency Resolution Process Remains Popular...

Figure 1: Cumulative # of CIRPs Admitted

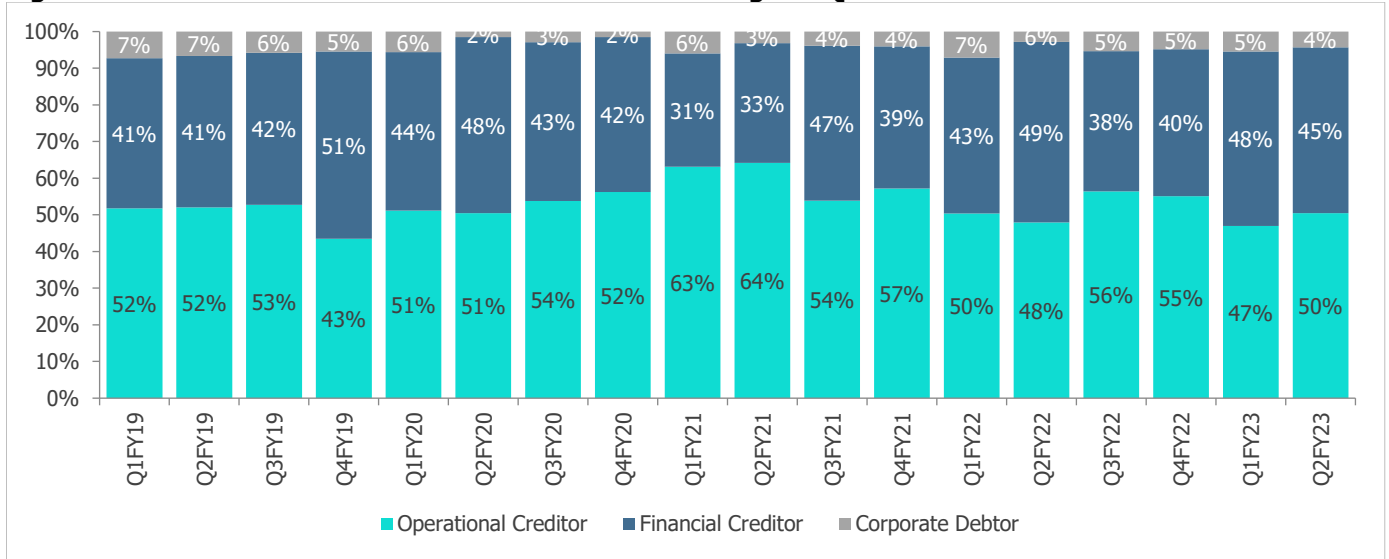


Source: IBBI

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 Q2FY23 by around 24% after reducing in the last few quarters in FY21 and FY22, however, despite the increase, the number of cases admitted to the insolvency process continues to be lower compared to earlier quarters in FY19/20.

IBC has continued to gain in popularity, with close to 6,000 companies being admitted and a significant number of these cases on a cumulative basis being filed by the financial creditors (2,531 cases) and the operational creditors (3,008 cases). As of September 2022, the share of financial creditors has decreased, while that of operational creditors has increased. The share of corporate debtors has continued to remain the smallest over the same period.

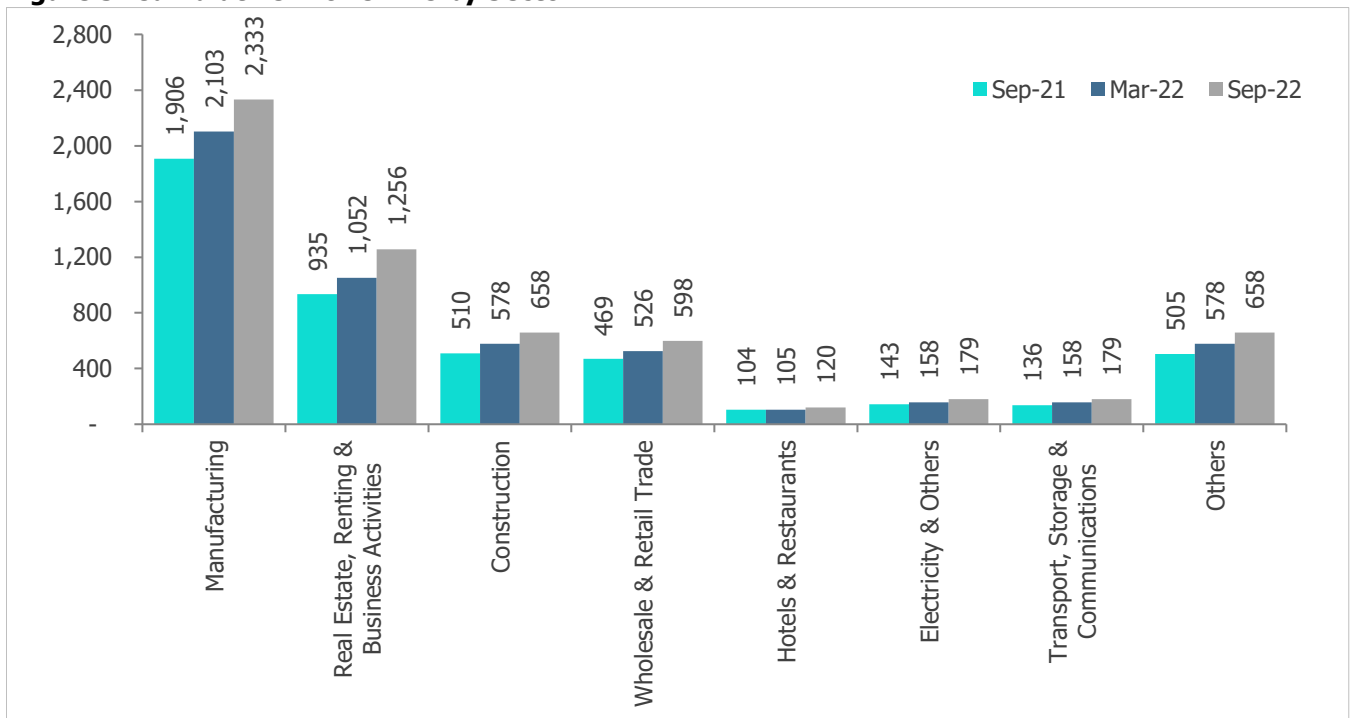
**Figure 2: Stakeholder-wise Distribution of CIRPs During the Quarter**



Source: IBBI

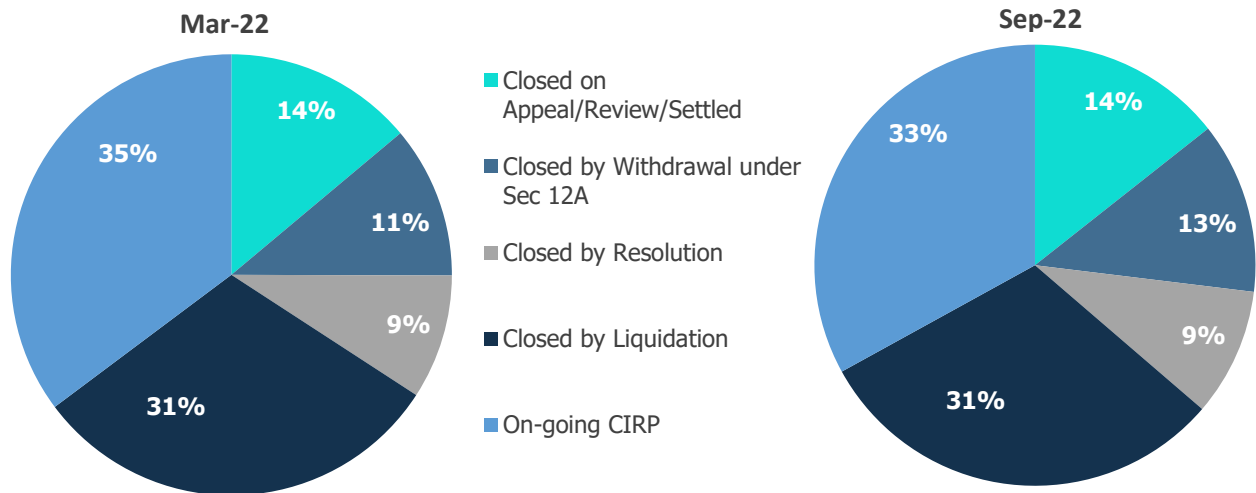
Figure 3 shows the dispersion of the admitted cases by sector. The share of the various sectors has largely remained constant compared with the previous period. As can be observed in Figure 3, the manufacturing sector accounts for the highest share at 39% of the overall cases, followed by the real estate (21%), construction (11%) and trading sectors (10%).

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



Source: IBBI

**Figure 4: Status of CIRPs**



Total cases: 5,258

Total cases: 5,889

Source: IBBI

The status of the cases has largely remained constant compared with the previous period. Of the total 5,889 cases admitted into CIRP at the end of September 2022:

- Only 9% have ended in approval of resolution plans, while 33% remain in the resolution process vs. 35% as of the end of March 2022.
- 1,807 have ended in liquidation (31% of the total cases admitted). Meanwhile, 76% of such cases were either BIFR cases and/or defunct.
- Around 14% (846 CIRPs) have been closed on appeal /review /settled, while 11% have been withdrawn under Section 12A. A significant number of withdrawn cases (around 54%) were less than Rs.1 crore, while the primary reason for withdrawal has been either the full settlement with the applicant (40.6%) or other settlement with creditors (24%).

**...Despite Haircuts of approximately 70%...**

**Figure 5: Summary of CIRPs Yielding Resolution**

Particulars	Amt/%		
	Up to Mar. 2022	For Q2FY23	Up to Sep. 2022
Total admitted claims of Financial Creditors (Rs cr)	684,901.3	10,121.5	790,626.2
Liquidation value (Rs cr)	131,447.9	2,793.2	137,118.8
Realisable by FCs (Rs cr)	225,293.8	3,054.4	243,452.5
Realizable by FCs as a % of their claims admitted	32.9	30.18	30.8
Realisable by FCs as a % of their liquidation value	171.4	109.4	177.6

Source: IBBI

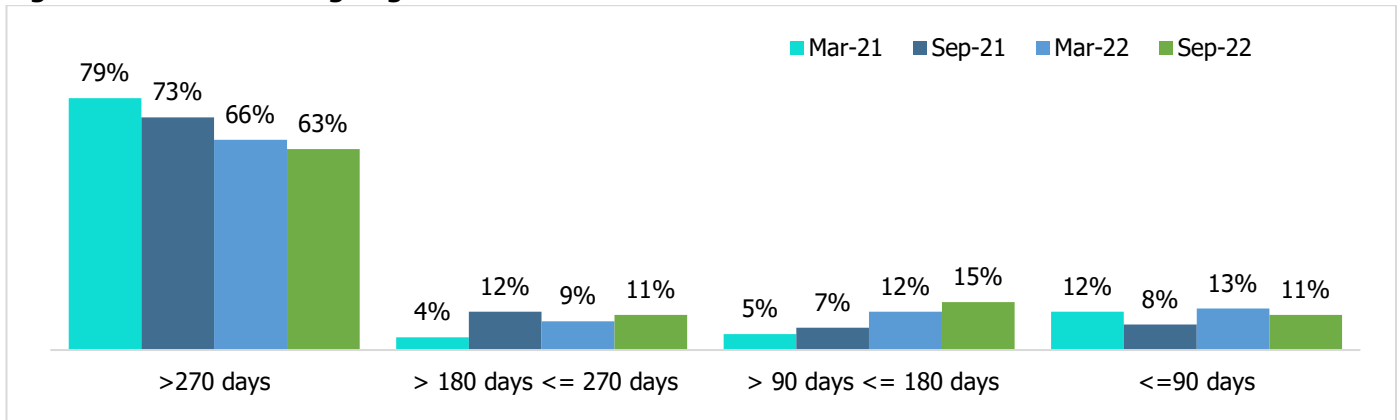
Post the implementation of the IBC, as can be seen in figure 5, the overall recovery rate till Q4FY22 in India reached 32.9% which has been on a declining trend. The recovery rate for Q2FY22 stood at 49.2%, which increased to

30.2% in Q2FY23, resulting in aggregate recovery reaching 30.8% by Q2FY23 end. Consequently, for the cases which have been resolved, the creditors have faced a haircut of approximately 70% on admitted claims.

**...and delays in ongoing CIRPs...**

Of the 1,944 going ongoing CIRPs, there has been a delay of more than 270 days for the completion of the process of 63% of ongoing CIRPs in September 2022 which is a decline of 10% as compared to 73% in September 2021. Further, we can observe that the 'more than 90 days but less than 180 days' segment is the second largest indicating that quite a few cases have commenced in the last quarter, while the other two categories continue to have quite a few cases in them highlighting the significant delays in the process.

**Figure 6: Timeline of Ongoing CIRPs**

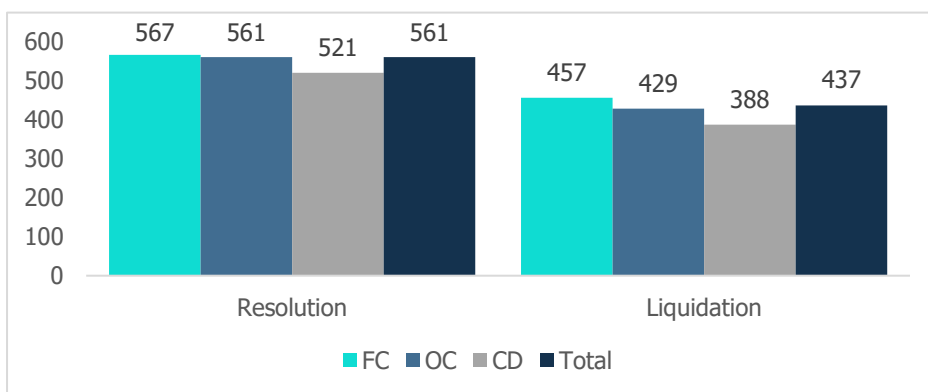


Source: IBBI

According to the report of the Standing Committee on Finance, the delay in resolution can be attributed to 1) delay in admitting cases to NCLT, 2) unsolicited bids outside the process which delay resolution, 3) subsequent litigations after the resolution plan has been approved, and 4) short-staffed NCLT and to the fact that NCLTs also handle cases relating to corporate affairs, M&As, etc.

The delays for closure of CIRP/ Liquidation are similar across various categories of stakeholders, but the corporate debtor segment takes somewhat lesser time for resolution compared to the other two stakeholders (financial creditor and operational creditor).

**Figure 7: Timeline of Cases by Segment**

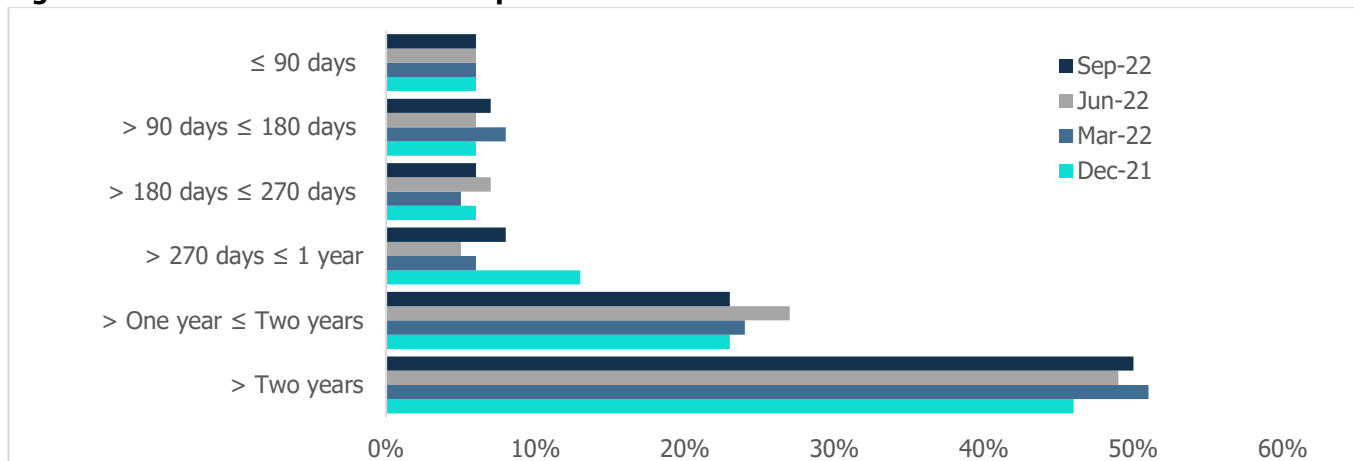


Source: IBBI

### ...and Even Liquidation

Figure 8 highlights the pendency even for cases which have gone into liquidation with around 50% of the cases pending for more than two years and another 23% of the cases pending for more than one year.

**Figure 8: Timeline of Cases under Liquidation**



Source: IBBI

### Update on Insolvency Resolution of Personal Guarantors

Apart from the details on the corporate insolvency process which have been covered earlier, figure 9 contains details on the insolvency resolution and bankruptcy proceedings related to personal guarantors.

**Figure 9: Insolvency Resolution of Personal Guarantors**

Period	Applications filed by				Total		Adjudicating Authority	
	Debtors		Creditors		#	Rs crore	NCLT	DRT
#	Rs crore	#	Rs crore					
FY20	3	49.7	20	3,256.9	23	3,306.5	22	1
FY21	20	2,485.9	220	36,760.4	240	39,246.3	234	6
FY22	82	3,039.2	783	59,717.9	865	62,757.1	854	11
Q1FY23	15	698.7	134	5,721.7	149	6,420.4	149	-
Q2FY23	16	942.8	110	12,165.9	126	13,108.7	126	-
<b>Total</b>	<b>136</b>	<b>7,216.4</b>	<b>1,267</b>	<b>11,7622.7</b>	<b>1,403</b>	<b>124,839.0</b>	<b>1,385</b>	<b>18</b>

Source: IBBI

Of the above 1,403 applications.

- 53 were withdrawn/rejected/dismissed before the appointment of a resolution professional
- Resolution professionals were appointed in 597 cases
  - 123 cases have been admitted
  - 18 cases have been withdrawn/rejected/dismissed

### 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 10: Status of Avoidance Transactions**

Nature of Transactions	Applications Filed		Applications Disposed		
	#	Amount (Rs crore)	#	Amount involved (Rs crore)	Amount recovered (Rs crore)
Preferential	127	14,438.6	27	568.6	30.9
Undervalued	16	884.3	1	351.6	-
Fraudulent	146	27,518.4	15	470.9	3.7
Extortionate	3	70.7	-	-	-
Combination	517	186,020.1	55	16,764.1	26.8
<b>Total</b>	<b>809</b>	<b>228,932.5</b>	<b>98</b>	<b>18,155.2</b>	<b>64.3</b>

Source: IBBI

As per figure 10, RPs have filed 809 applications for avoidance transactions amounting to approximately Rs 2.2 lakh crore. Of these, only 98 transactions involving over Rs 18,100 crore (approximately 7.9% of the amount involved) were disposed of and only Rs 64.3 crore (only 0.3% of the amount disposed) have been recovered. Further, in one case 758 acres of land out of 858 acres earlier valued at Rs. 5,500 crore has been recovered by a company which is under the resolution process.

## 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:

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. The wholly-owned subsidiaries of CARE Ratings are (I) CARE Advisory, Research & Training Ltd, which offers customised advisory services, credible business research and analytical services (II) CARE Risk Solutions Private Ltd, which provides risk management solutions.

## 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.