

## STRUCTURED FINANCE

**Record number of cases approved by IBC in FY2024; increase in average duration of resolution process worrisome**

**June 2024**





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*In FY2024, the National Company Law Tribunal (NCLT) approved a record number of 269 resolution plans under the Insolvency and Bankruptcy Code (IBC), surpassing the previous high of 189 cases in FY2023.*

*The average duration for closing a CIRP yielding a resolution plan increased to 843 days in FY2024 against 831 days in FY2023. This contributed to a worsening of the haircut (recovery lower than the claims) that the creditors had to take through the IBC process to a steep 73% in FY2024.*



The number of approved resolution plans (RPs) under the Corporate Insolvency Resolution Process (CIRP) witnessed a significant increase, rising by 42% from 189 in FY2023 to 269 in FY2024, marking a record high for CIRP resolutions. The closed cases also outpaced the admitted cases in FY2024.



The average duration for closing the CIRP process through RP increased to 843 days in FY2024 while that for CIRP yielding liquidation took 679 days in FY2024. The increase in average days increased the haircuts for creditors to 73% in FY2024.



The proportion of CIRPs resulting in liquidation remains high at around 45% of the 5,467 closed CIRPs as of March 31, 2024. However, there has been a decreasing trend in the percentage of liquidation cases among the closed ones over the past three years, which is a positive.



The admitted claims under CIRP for RP rose by 13% while claims under liquidation reduced by 14% in FY2024. The declining claims under liquidation and increase under RP is a positive as liquidations have resulted in higher haircuts for creditors in the past.



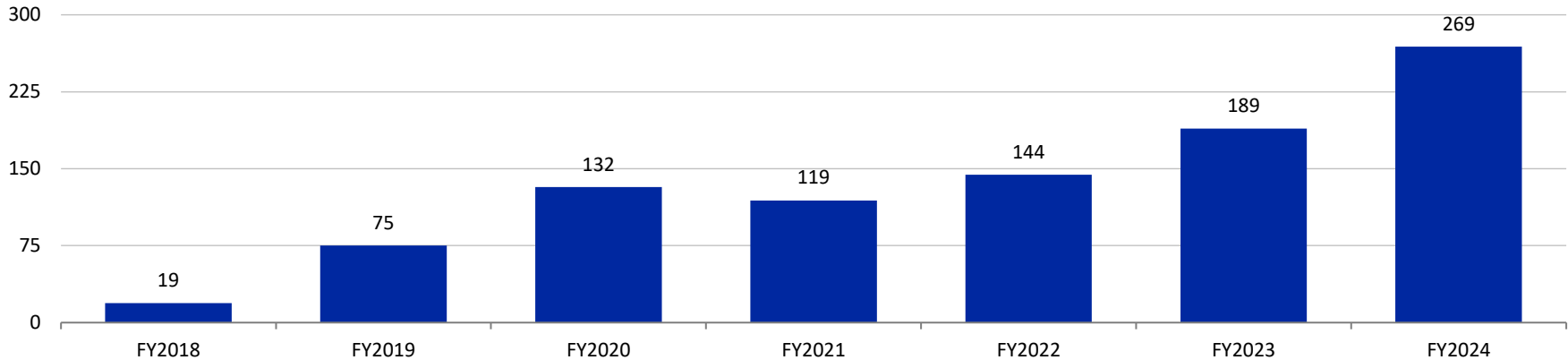
There has been a high correlation between the time taken for resolution under the CIRP process and the recovery for creditors. Only 15% of the cases resolved through RP, have seen a time frame of up to 330 days, but recovery in these cases has been higher at ~49% against an average of ~32%.



While IBC has seen high haircuts for creditors and a long timeframe for recovery, the recoveries under the IBC route for banks has been better than for those through other routes like Debt Recovery tribunal (DRT) and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI).

# Record number of resolution plans approved in FY2024

## Exhibit: Number of resolution plans approved under IBC

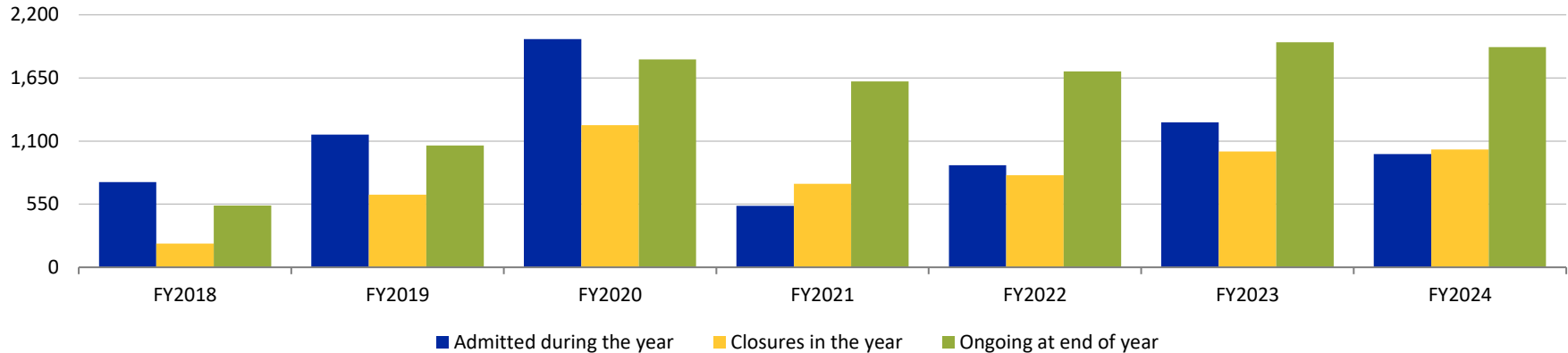


Source: IBBI, ICRA Research

- Due to the delay in closure of CIRP process on account of the pandemic, the number of resolution plans approved had dipped marginally in FY2021; the traction since then has been positive.
- While the number of resolution plans approved under the IBC has seen a growth post FY2021, FY2024 saw a record number of resolution plans approved at 269 against 189 in FY2023 (~42% increase on a YoY basis).
- The notable increase can be attributed to a sharp rise in corporate debtors admitted under the IBC in FY2023 following the impact of the pandemic.

# Improvement in closures and reduction in admitted cases a positive

Exhibit: Year-wise CIRP additions and closures

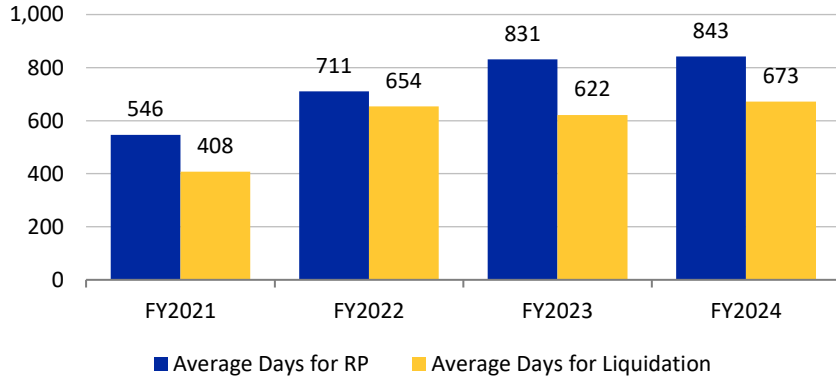


Source: IBBI, ICRA Research

- There had been a notable increase in the number of cases admitted during FY2023 (1,263 cases) against 890 cases in FY2022. However, in FY2024 the number of cases admitted by the NCLT dropped by 22% to 987, which points to the improving credit profile of India Inc.
- The number of cases closed has shown an improvement in FY2024, post the dip seen in FY2021 that was on account of pandemic-related delays.
- The ongoing number of cases saw a marginal dip to 1,920 in FY2024.

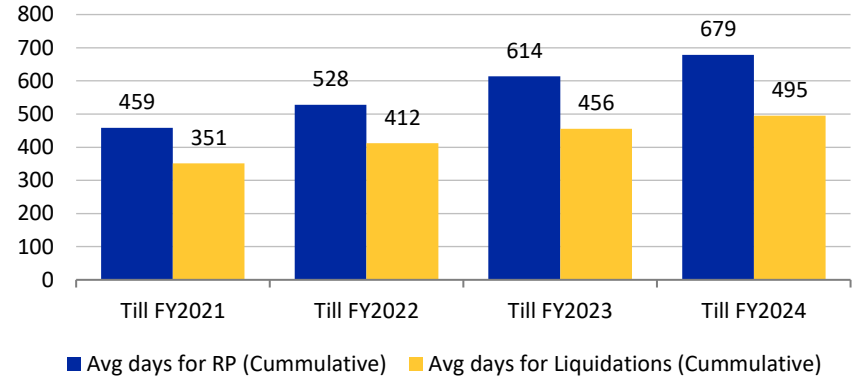
# Realisations take a hit as legacy cases keep dragging on

Exhibit: Average days for CIRP process



Source: IBBI, ICRA Research

Exhibit: Cumulative average days for CIRPs process

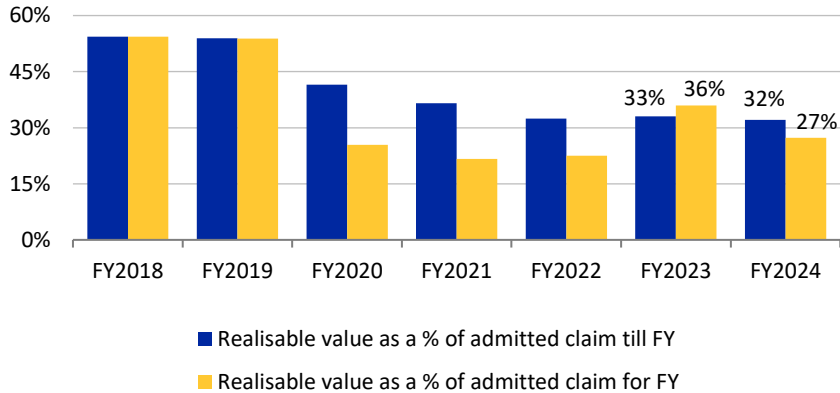


Source: IBBI, ICRA Research

- The average days for both resolution plan and liquidation have been increasing; however, in FY2024 the increase in average days through resolution was marginal, which is a positive.
- The average days for liquidation increased in FY2024 after seeing some improvement in FY2023; however, the same continues to be high.
- ICRA believes creditors are approaching the NCLT to admit a defaulting corporate debtor with substantial delays, which has resulted in significant erosion of assets.
- Further, it has been observed that there is acute difficulty in closing the CIRP process in a time-bound manner, on account of litigations by the promoters or dissenting creditors as well as overburdened NCLT benches.

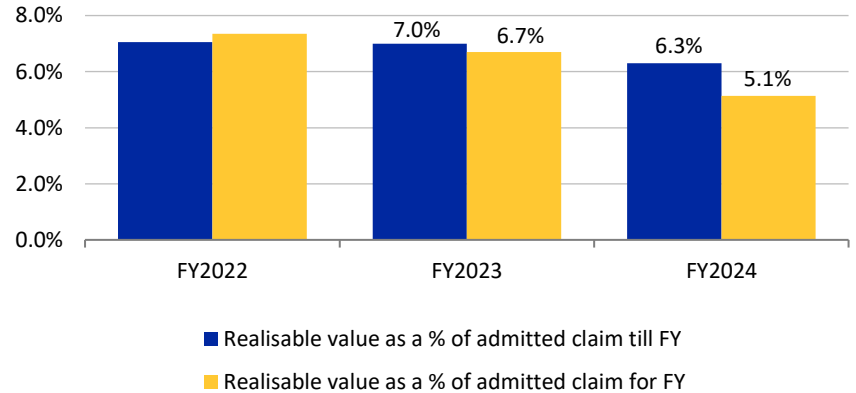
# Realisations continue to be low with increased haircuts for lenders

**Exhibit: Realisation for CIRPs leading to resolution plan**



Source: IBBI, ICRA Research

**Exhibit: Realisations for CIRPs leading to liquidations**

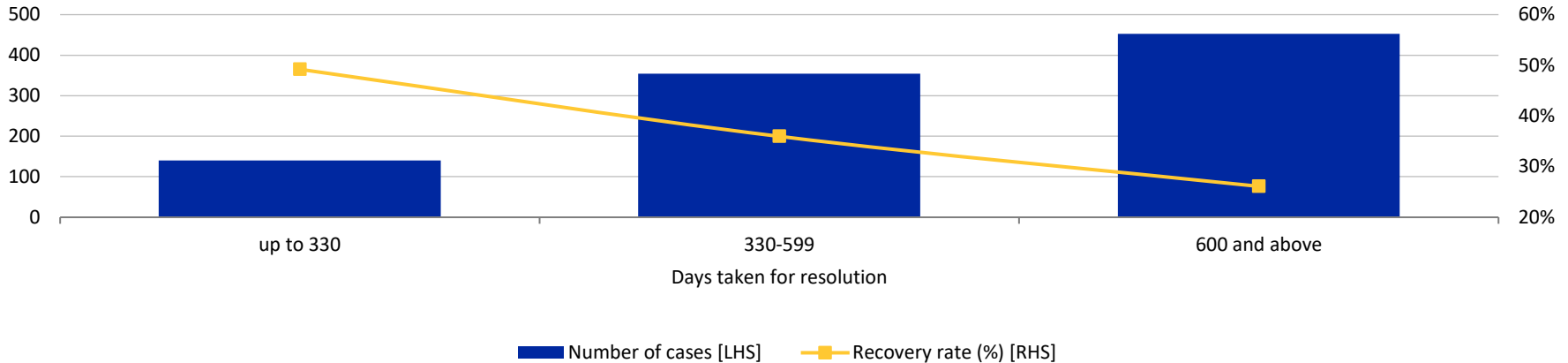


Source: IBBI, ICRA Research

- There has been an increase in the average number of days for the CIRP process, which has led to higher haircuts for lenders as the value of underlying assets is likely to have eroded.
- The recovery, which had increased to 36% in FY2023, declined to 27% in FY2024 and thus lenders have seen the haircut increase from 64% to 73% in the period.
- On a cumulative basis, the market value continues to be substantial at 68% for the recovery through the resolution plan; however, the same continues to be much better than the value for recovery through liquidation, which remains low. For FY2025, ICRA estimates the recovery to be 30-35% through resolution plans and ~5% through liquidation.

# Recovery rates highly correlated to time taken for resolution

Exhibit: Recovery rates vs resolution in number of days

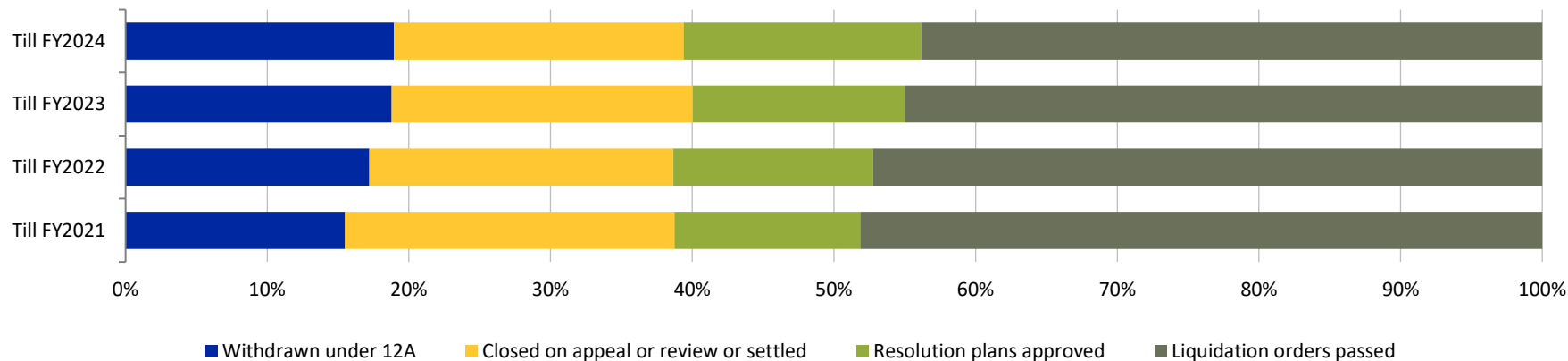


Source: IBBI, ICRA Research

- For the 987 cases resolved till FY2024 under the CIRP process, around 15% of the cases have seen resolution within the 330-day timeline and these cases have seen the highest recovery at ~49%.
- ICRA has observed that the higher the number of days taken for the resolution, the lower has been the recovery.
- Nearly 48% of the cases have taken 600 or more days to complete the CIRP process, leading to lower recovery in these cases, which is a concern as the delay has resulted in substantial haircuts for the creditors.

# Share of resolution plans improving while that of liquidations declining

Exhibit: Outcome of CIRPs as a % of cumulative closed cases



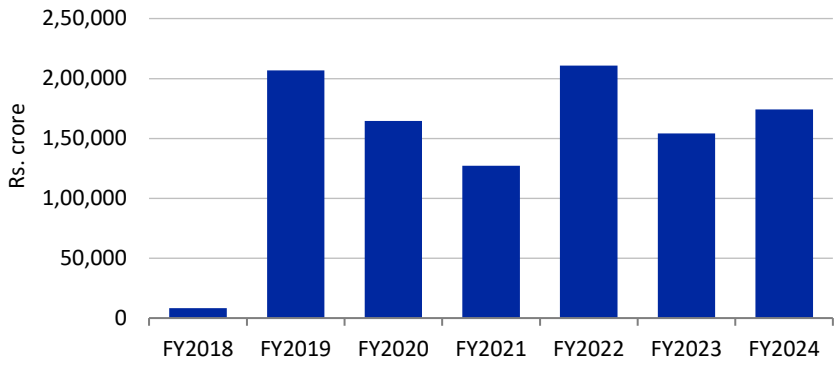
Source: IBBI, ICRA Research

- The share of withdrawals has been increasing and touched ~19% till FY2024, which is likely on account of debtors willing to settle their defaults to avoid the CIRP process.
- Encouragingly, the share of resolution plans approved has also been increasing, which rose to ~17% till FY2024 from ~13% till FY2021.
- The IBC's objective was to ensure recovery through the resolution route, thereby safeguarding jobs. Preservation of economic value of assets through effective resolution and unlocking of capital, which is stuck in unviable businesses, is important as a high share of liquidation deviates from its core objectives.
- Thus, while the major concerns in the CIRP process in the past has been the higher share of liquidation, there has been some decline in liquidation orders passed from ~48% till FY2021 to ~45% in FY2024, which is a positive.



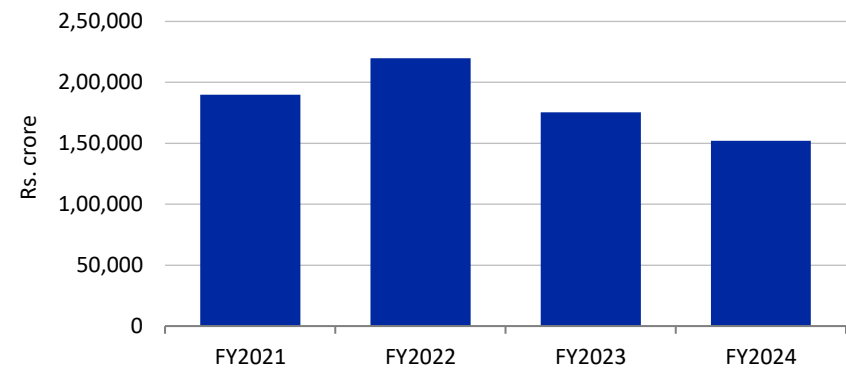
# Reduction in liquidation claims a positive

**Exhibit: Admitted claims resolved through CIRP**



Source: IBBI, ICRA Research

**Exhibit: Admitted claims resolved through liquidation**

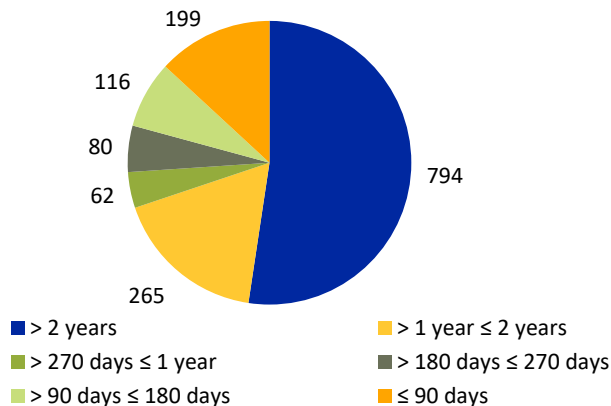


Source: IBBI, ICRA Research

- In FY2024, ~Rs 1.7 lakh crore of admitted claims by creditors were resolved, i.e., 13% higher than the Rs. 1.5 lakh crore recorded in FY2023, through a resolution plan under the IBC.
- The highest claims were in FY2022, post the pandemic, since there was likely to be a delay in the admission of claims, as there was a moratorium on the IBC during the pandemic.
- Under the liquidation process, the amount of claims being approved saw a declining trend, post FY2022, and stood at ~Rs. 1.5 lakh crore in FY2024.

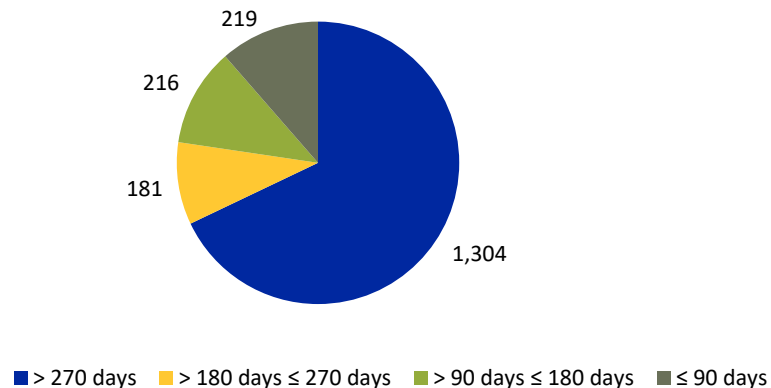
# Large number of legacy cases await resolution

Exhibit: Age of ongoing liquidation cases at end of FY2024



Source: IBBI, ICRA Research

Exhibit: Age of ongoing CIRPs at end of FY2024

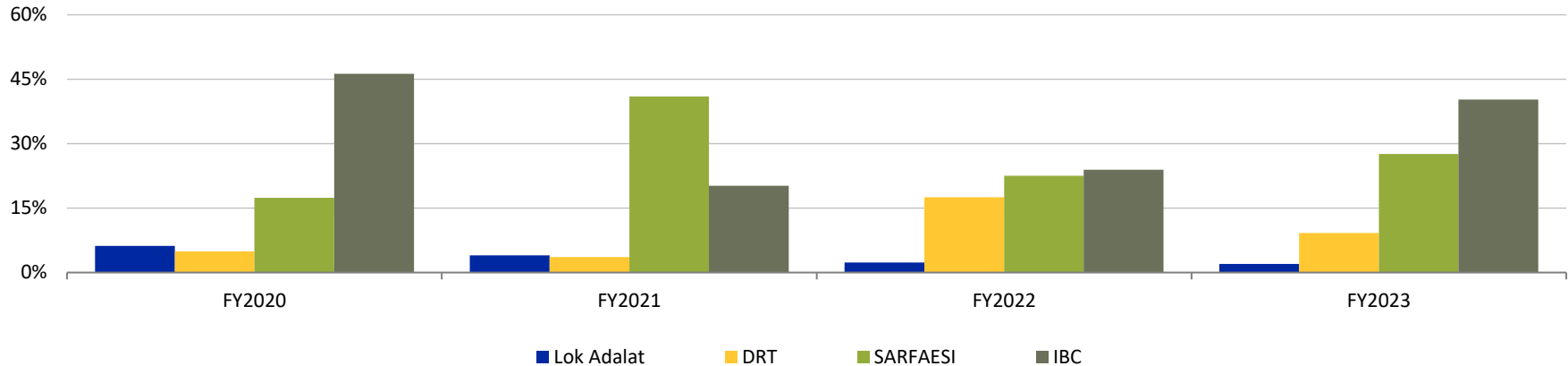


Source: IBBI, ICRA Research

- There are 1,516 cases undergoing liquidation as on March 2024 and a substantial part of them (~52%) are legacy cases, which have been under the liquidation process for more than two years.
- For the 1,920 cases in which the CIRP process is ongoing, ~68% have been admitted prior to 270 days. Timely resolution of these cases will be critical to drive the recovery timelines as well as the haircuts for the creditors.
- While the average resolution timeframe for cases has been upwards of two years under the CIRP and was 843 in FY2024, ICRA does not expect any material change in the average timelines under the CIRP process in the near term.






# IBC continues to show better recovery rate for banks

Exhibit: Percentage NPA recovery for banks through various channels



Source: RBI, ICRA Research

- Typically, it has been seen that recovery through the DRT route has been very slow while in many SARFAESI cases, there have been delays on account of stay and various procedural steps like obtaining court orders. The advent of IBC was seen as more an effective mechanism to deal with defaulting borrowers.
- While the creditors have seen high haircuts under the IBC, the recovery under the IBC still has outperformed the recovery under other channels available like Lok Adalats, DRT and the SARFAESI act.
- Thus, while there is scope for improvement, the IBC remains a better channel for resolving defaulting debtors, especially for large corporate accounts and has also acted as a deterrent for promoters of defaulting entities.

| Size-based differentiation  | Debt aggregation and role of CoC  | Role of ARCs   | Judiciary level improvements  | Broadening the investor base  |
|---|---|--|---|---|
|    |    |    |    |    |
| <p>The clogging up of cases in the IBC is on account of a high number of MSME accounts, which need to be resolved via a standardised approach. While the Pre-Packaged Insolvency Resolution Process (PPIRP) has been rolled out for the MSMEs, which is a positive, its implementation has been muted, which needs to be looked at.</p> | <p>Coordination between creditors and the role of the Committee of Creditors (CoC) is a key factor to ensure timely resolution of the CIRP process as the plan has to be approved by the CoC first. A more coordinated and focused approach along with debt aggregation through ARCs is likely to hasten the process.</p> | <p>Asset reconstruction companies (ARCs) are a key component of the stressed asset ecosystem. However, in an Indian context, the role of ARCs in resolution has been limited, albeit improving, post various changes for ARCs brought in by the RBI. A more dynamic role in resolution for ARCs is needed to achieve better and time-bound recovery.</p> | <p>Overburdening of the judicial system is a critical bottleneck for resolution of stressed assets; despite the apex court upholding the key provisions of the IBC, it has been seen that average days for resolution has been increasing. Resolution of legacy cases and removal of these judicial delays would be critical to ensure timely recovery going forward.</p> | <p>Buyers of stressed assets (primary market) like ARCs continue to face challenges on account of limited capital. Further, developing a vibrant secondary market for these assets (sell-down through transfer or securitisation) is necessary as it would bring more investors to the stressed asset sector, which has largely seen limited participation.</p> |



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