



## Increased Recovery Under IBC

**For Prelims:** [Insolvency and Bankruptcy Code \(IBC\), 2016](#), [Insolvency and Bankruptcy Board of India \(IBBI\)](#), Financially stressed companies, Bankruptcy, [National Companies Law Tribunal \(NCLT\)](#), [Debt Recovery Tribunal \(DRT\)](#), [Committee of Creditors \(CoC\)](#), [Insolvency professionals](#)

**For Mains:** [Insolvency and Bankruptcy Code \(IBC\), 2016](#), [Insolvency and Bankruptcy Board of India \(IBBI\)](#)

**Source:** ET

### Why in News?

Recent data from the [Insolvency and Bankruptcy Board of India \(IBBI\)](#) shows, **creditors** in India have retrieved almost **half of their claims** under the [Insolvency and Bankruptcy Code \(IBC\), 2016](#) when resolutions are concluded within the **330-day deadline**, although **delays have diminished** the proportion of money recovered.

### What are the Key Highlights of the Latest Data?

#### ▪ Recovery Rates and Timeliness:

- Data shows that 947 financially stressed companies' resolutions resulted in creditors receiving ₹3.36 lakh crore, equivalent to **32.1% of their claims since the inception of the IBC (2016)**.
- Stress resolution under the [Insolvency and Bankruptcy Code \(IBC\), 2016](#) has improved in recent years, but recoveries have not kept pace.
  - Recoveries by creditors were at 54% in FY18 and FY19 but dropped to 22% in FY21 due to the pandemic.
  - Recoveries inched up to 23% in FY22 and 36% in FY23 before **declining again to 27% in FY24**.
- The number of resolutions reached a record 269 in the last fiscal year (FY 24), up from 189 in FY23 and 144 in FY22, mainly due to government filling [National Company Law Tribunal \(NCLT\)](#) vacancies in the past two years.
- Creditors have experienced **stronger cumulative recoveries** compared to the fair value of stressed companies **upon insolvency admission, at 85%**.
  - **In terms of liquidation value**, the recovery rate has reached **161.8%** of the assets.
- Experts **stress the importance of timely initiation of the Insolvency and Bankruptcy Code (IBC)** for stress resolution, as **delays (averaging 679 days) have lowered recovery rates to 26%**, impacting asset value and debt recovery.

### What are the Proposed Measures to Strengthen IBC?

- **Reduce Delays:** Efficiently resolving insolvency cases within the **IBC's 330-day deadline** is imperative, with the **current average duration of 679 days** underscoring the need for streamlining processes and reducing litigation.

- **Improve Recovery Rates:** While the IBC has led to resolutions, the percentage of claims recovered by creditors needs improvement. It dropped from 49% for on-time resolutions to 26% for delayed ones. It can be achieved by:
  - Ensure **sufficient judges and staff at the NCLT** to handle cases efficiently to **expedite processing and reduce delays** caused by backlogs.
  - Review and **simplify the IBC procedures** to eliminate unnecessary steps and expedite approvals involving standardising processes.
- **Sector-Specific Regimes:** Consider **specialised insolvency regimes** for sectors like [real estate](#), which may have unique challenges compared to other industries.
- **Cross-Border Insolvency Framework:** Establish an [effective legal framework](#) based on the [UNCITRAL \(United Nations Commission on International Trade Law\)](#) to handle insolvency cases involving companies with assets in multiple countries.
- **Review Timelines:** Re-evaluate the timelines mandated by the IBC to ensure they are efficient and minimise unnecessary delays.
- **Formal Prepack for All Companies:** Allow a formal pre-packaged insolvency process for all companies, not just [Micro, Small and Medium Enterprises \(MSME\)](#). This involves **agreeing on a resolution** plan before initiating formal bankruptcy proceedings.

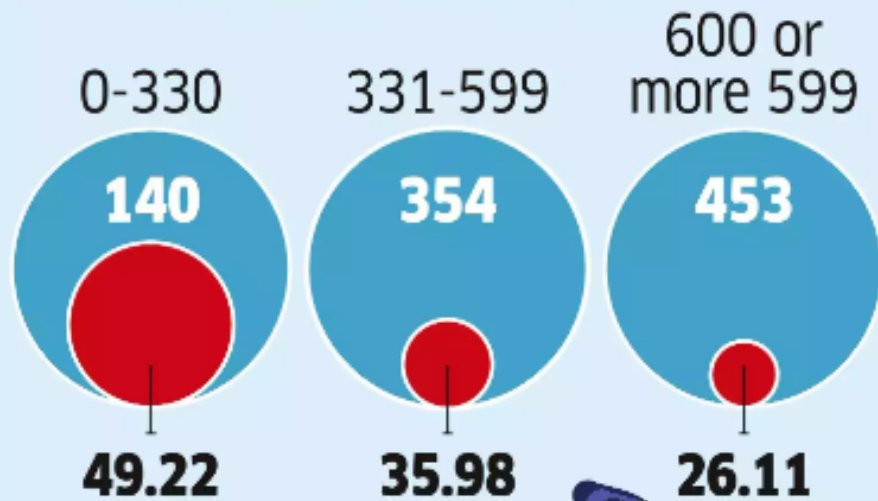
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# Costly Delay

## Resolution duration (Days)

● No of cases ● Recovery\*



\*% of creditors' claims approved by NCLT

Insolvency cases pertain to late 2016-March 2024

Source: IBBI

**679 DAYS** Average time taken for resolution of a stressed firm

**32.10%** Average recovery rate involving 947 resolved cases

## What are the Key Highlights of the Insolvency and Bankruptcy Code, 2016?

### ▪ About:

- The **Insolvency and Bankruptcy Code (IBC), 2016** provides a framework for resolving the bankruptcy and insolvency of companies, individuals, and partnerships in a **time-bound manner**.
  - **Insolvency** is a state where the **liabilities of an individual** or an organisation **exceed its assets and that entity is unable to raise enough cash to meet**

**its obligations** or debts as they become due for payment.

- **Bankruptcy** is when a person or **company is legally declared incapable of paying their due and payable bills.**

- The **Insolvency and Bankruptcy Code (Amendment) Act, 2021** modified the 2016 Code to offer a **more efficient insolvency resolution** framework for MSMEs, ensuring quicker, cost-effective, and value-maximising outcomes for all stakeholders.

▪ **Insolvency and Bankruptcy Board of India (IBBI):**

- **IBBI** serves as the **regulatory authority** overseeing insolvency proceedings in India.
- The IBBI's Chairperson and three full-time members are appointed by the government and are experts in the fields of finance, law, and insolvency.
- It also has ex-officio members.

▪ **Adjudication of Proceedings:**

- **National Companies Law Tribunal (NCLT)** adjudicates proceedings for companies.
- **Debt Recovery Tribunal (DRT)** handles proceedings for individuals.
  - They play a pivotal role in approving the initiation of the resolution process, appointing professionals, and endorsing the final decisions of creditors.

▪ **Procedure for Insolvency Resolution under the Code:** Initiated by either **debtor or creditor** upon default, insolvency professionals manage financial information and debtor assets, with a 180-day legal action prohibition during resolution.

▪ **Committee of Creditors (CoC):** The CoC, formed by **insolvency professionals** and comprising financial creditors, determines the fate of outstanding debts through debt revival, repayment schedule changes, or asset liquidation, with a 180-day deadline before the debtor's assets are liquidated.

▪ **Liquidation Process:** Proceeds from the sale of the debtor's assets are distributed **first to insolvency resolution costs**, second to secured creditors, third to dues for workers and employees, and fourth to unsecured creditors.

**Drishti Mains Question:**

Q. Discuss the challenges faced in the implementation of the Insolvency and Bankruptcy Code (IBC) in India and suggest measures to strengthen its effectiveness.

**UPSC Civil Services Examination, Previous Year Question (PYQ)**

**Prelims**

**Q. Which of the following statements best describes the term 'Scheme for Sustainable Structuring of Stressed Assets (S4A)', recently seen in the news? (2017)**

**(a)** It is a procedure for considering ecological costs of developmental schemes formulated by the Government.

**(b)** It is a scheme of RBI for reworking the financial structure of big corporate entities facing genuine difficulties.

**(c)** It is a disinvestment plan of the Government regarding Central Public Sector Undertakings.

**(d)** It is an important provision in 'The Insolvency and Bankruptcy Code' recently implemented by the Government.

**Ans: (b)**

