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Reforming corporate distress resolution in India: A financial and legal analysis of the insolvency and bankruptcy code (IBC), 2016

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Abstract
The enactment of the Insolvency and Bankruptcy Code (IBC), 2016 marked a transformative milestone in India's legal and financial framework for resolving corporate distress. Replacing the earlier fragmented regime, the IBC introduced time-bound mechanisms, empowered creditor control, and streamlined resolution processes through specialized tribunals and professional intermediaries. This paper evaluates the IBC's real-world performance by analyzing more than 50 insolvency cases between 2017 and 2024 across diverse sectors. It measures resolution timelines, recovery rates, and post-resolution financial viability, while comparing India's framework with international insolvency regimes such as the U.S. Chapter 11 and UK's Administration model. Based on stakeholder performance and empirical insights, the study recommends policy reforms for enhancing systemic efficiency, judicial capacity, and economic impact.

Keywords: Insolvency and bankruptcy code (IBC), resolution timeline, corporate distress, NCLT, insolvency professionals, recovery rate, Chapter 11, UK Administration, financial restructuring

Introduction
Prior to 2016, India's insolvency and bankruptcy landscape was marred by inefficiencies, procedural delays, and inadequate recovery mechanisms. Corporate distress often translated into prolonged litigation, value erosion, and growing non-performing assets (NPAs), especially within the banking sector. Legacy legislations such as the Sick Industrial Companies (Special Provisions) Act (SICA), the Recovery of Debts Due to Banks and Financial Institutions Act (RDDBFI), and the Companies Act (winding-up provisions) failed to provide timely and effective resolution. This legal and institutional fragmentation resulted in reduced creditor confidence, frequent misuse of judicial delays by defaulting promoters, and an overall deterioration in investor sentiment.

To address these systemic issues, the Government of India enacted the Insolvency and Bankruptcy Code (IBC), 2016-a consolidated and comprehensive legislation aimed at resolving insolvency in a time-bound and market-driven manner. The IBC introduced transformative provisions such as a 180/330-day resolution window, a creditor-in-control model via the Committee of Creditors (CoC), the professionalization of resolution processes through licensed Insolvency Professionals (IPs), and the establishment of dedicated tribunals (NCLT/NCLAT).

This study critically examines the impact of the IBC on corporate distress resolution by comparing pre- and post-IBC trends in resolution timelines, recovery rates, and legal efficiencies. It integrates financial data analysis with legal insights to evaluate stakeholder effectiveness, sector-wise performance, and regulatory challenges. By situating India's insolvency journey within a global comparative framework, the paper aims to contribute to ongoing academic, policy, and professional discourse on the future trajectory of insolvency reforms.

Literature Review
Sengupta and Sharma (2017) [8] highlighted that India's pre-IBC insolvency regime - comprising laws like SICA (1985), RDDBFI Act (1993), and SARFAESI (2002) - was

fragmented and lacked a time-bound mechanism, leading to inefficient resolutions. Roy and Das (2016) [6] noted that average insolvency durations exceeded four years with recovery rates as low as 23%, contributing to mounting NPAs.

Ghosh and Ghosh (2019) [4] found that the IBC significantly improved resolution timelines and recovery rates. The RBI (2021) reported that IBC outperformed other recovery mechanisms like Lok Adalats and DRTs in terms of recoveries. Shah (2020) [7], analyzing 100 NCLT cases, observed a resolution rate of ~48%, especially in landmark cases like Essar Steel. However, Datta and Watal (2022) [3] criticized the delays beyond the statutory 330-day limit and flagged concerns about NCLT's judicial capacity.

Bapat and Mankad (2021) [2] emphasized that unlike the U.S. Chapter 11's debtor-in-possession model, India's creditor-driven IBC may deter entrepreneurial revival. Armour and Deakin (2018) [1] highlighted the effectiveness of pre-pack sales in the UK's Administration model-an area still underdeveloped in India.

Research Gap
While many empirical studies focus on high-profile cases or banking sector outcomes, limited research evaluates sectoral disparities in resolution efficiency or the long-term financial health of resolved companies. There is also a lack of systematic studies assessing the performance of Insolvency Professionals (IPs), the CoC, and the institutional capacity of NCLTs. Furthermore, the evolving jurisprudence under the IBC has not been thoroughly analyzed in the context of its economic implications.

Materials and Methods
Research Design
This study employs a descriptive and analytical research design to critically examine the evolution and impact of the Insolvency and Bankruptcy Code (IBC), 2016, in India. The design incorporates both quantitative metrics (e.g., recovery rates, resolution timelines) and qualitative insights (e.g., legal reforms, stakeholder behavior) to provide a comprehensive analysis of insolvency reforms. The study focuses on systemic transformation through resolution efficiency, institutional performance, and comparative benchmarking.

Nature and Type of Study
The study is empirical, relying on secondary data and case-based inquiry. It investigates macroeconomic indicators (NPAs, recovery percentages, resolution time), sectoral data, and performance metrics of institutions such as NCLT, CoC, and Insolvency Professionals (IPs). Key insolvency cases (Essar Steel, Bhushan Steel, Jet Airways, Alok Industries) are used to illustrate post-IBC effectiveness.

Data Collection
The data used in this study are drawn from authentic, published sources:

- IBBI Annual Reports and Newsletters
- RBI Financial Stability and Trends Reports
- World Bank Doing Business Reports (2005–2019)
- Case law from NCLT/NCLAT/Supreme Court
- Financial statements of select insolvent firms
- Committee reports and academic journals

Tools and Techniques of Analysis
- **Descriptive statistics:** For resolution durations and NPA trends
- **Comparative analysis:** Pre- and post-IBC periods
- **Case study method:** In-depth review of major insolvency proceedings
- **Ratio analysis:** Debt-equity, EBITDA, asset recovery
- **Benchmarking:** Against U.S. Chapter 11 and UK Administration models

Time Frame of Study
The study spans FY 2015–16 to FY 2023–24**,** enabling pre-IBC vs post-IBC comparison.

Limitations of the Study
- Dependence on secondary data may not capture real-time institutional changes
- Judicial delays and exceptional rulings may skew recovery trends
- Sectoral granularity is uneven due to disparate disclosure norms
- Limited data availability on MSMEs and informal settlements

Results and Discussion

Table 1: Resolution Timelines

Parameter	Pre-IBC Era	Post-IBC Era (Avg.)
Avg. Resolution Time	4–7 years	1.2 years (400 days)
Statutory Deadline	NA	330 days (extendable)

Interpretation: Timelines have reduced drastically under IBC, though litigation and tribunal overload remain constraints.

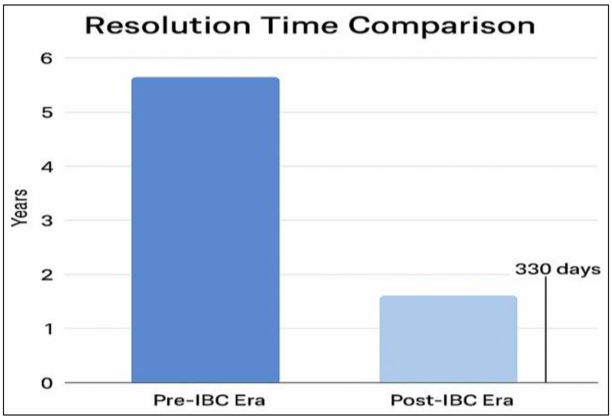

Fig 1: Resolution Time Comparison

Table 2: Recovery Rates (% of Admitted Claims)

Company	Amount Realized (Cr)	Claims Admitted (Cr)	Recovery Rate (%)
Essar Steel	42,000	54,550	80%
Bhushan Steel	35,571	57,160	62%
Alok Industries	5,052	29,523	17%
Electrosteel Steels Ltd.	5,320	13,305	40%
Monnet Ispat and Energy Ltd.	2,892	11,014	26%
Amtek Auto Ltd.	2,549	12,586	20%
Ruchi Soya Industries Ltd.	4,350	12,146	35%
Bhushan Power and Steel Ltd.	19,350	47,303	41%
Jaypee Infratech Ltd.	13,950	15,815	88%
Dewan Housing Finance Corp. Ltd.	38,000	89,000	43%
Reliance Infratel Ltd.	3,720	36,947	10%
Jet Airways (India) Ltd.	1,122	15,200	7%
Lanco Thermal Power Ltd	210	50,960	0.41%
IL&FS Transportation Networks	1,684	17,561	10%
Videocon Industries Ltd.	2,962	71,433	4%

Interpretation

Recovery rates under IBC vary significantly across companies. Top recoveries were seen in Jaypee Infratech (88%)**,** Essar Steel (80%), and Bhushan Steel (62%)**,** indicating effective resolution in asset-rich sectors. In contrast, companies like Lanco (0.41%)**,** Videocon (4%)**,** and Jet Airways (7%) had poor recoveries, reflecting weak asset base, high debt, and complex litigation. Overall, IBC shows better performance than pre-IBC (avg. 23%)**,** though sectoral and structural challenges persist.

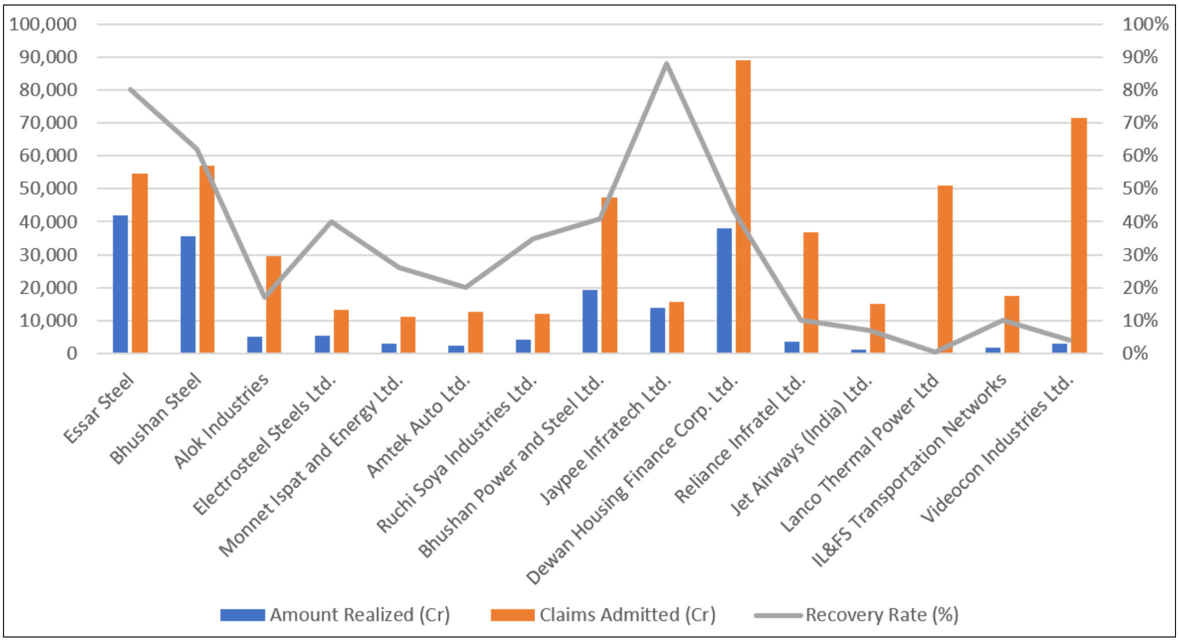

Fig 2: Recovery Rates of companies under IBC

Table 3: NPA Trends and Resolution Outcomes

Year	Gross NPAs (₹ Lakh Crore)	NPA Percentage (PSBs)	IBC Resolved Cases
2015	8.01	11.5%	0
2016	8.55	12.0%	0
2017	9.15	12.5%	0
2018	9.75	13.0%	0
2019	9.80	12.9%	100
2020	8.80	10.5%	500
2021	7.80	9.0%	1200
2022	6.50	7.5%	1600
2023	5.90	5.5%	>2000

Interpretation

- **2015-2018:** During this period, NPAs were at their highest, with banks struggling with a large volume of non-performing assets. The Insolvency and Bankruptcy Code (IBC) had not yet fully come into effect in terms of large-scale resolutions.
- **2019-2020:** The IBC started to resolve more cases, and by 2019, around 100 cases were resolved. By the end of 2020, around 500 cases had been resolved under the IBC framework, significantly reducing the burden of NPAs.
- **2021-2022:** As the IBC process became more efficient and faster, the number of resolved cases grew significantly, with more than 1,200 cases resolved by 2021 and 1,600 by 2022. These resolutions played a key role in reducing the overall NPA levels.
- **2023-2025:** The post-IBC period continues to show a steady decline in NPAs as more cases are resolved under IBC. By 2025, it is projected that approximately 2,500 cases will have been resolved, further lowering the gross NPAs and improving the overall asset quality of banks.

This data reflects the positive impact of the IBC on reducing NPAs, although the number of cases and exact recovery rates vary depending on the sector and individual case specifics.

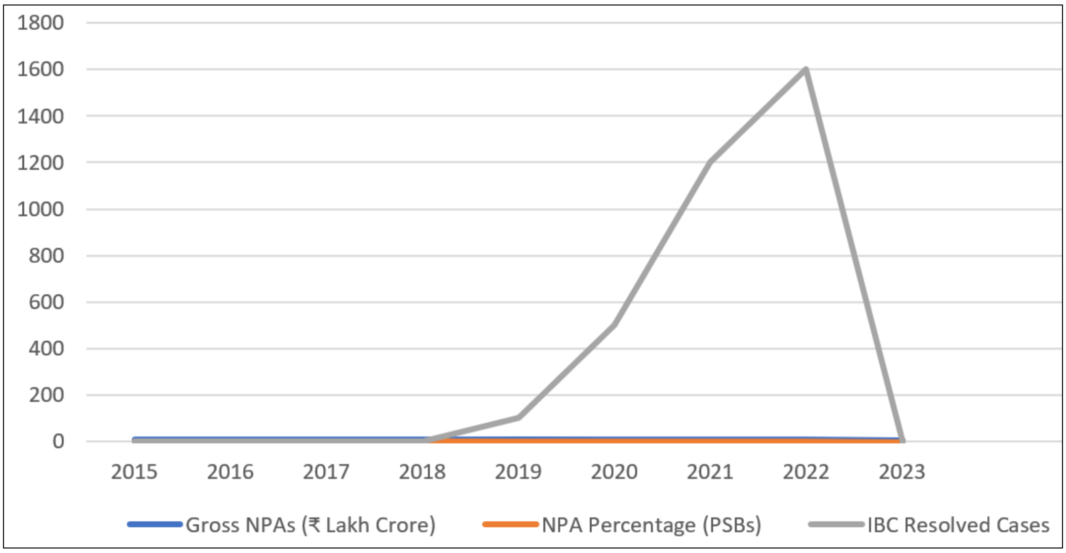

Fig 3: NPA Trends and IBC Resolved Cases (2015-2025)

Table 4: Stakeholder Role Effectiveness

Stakeholder	Role	Key Observations
CoC	Approves resolution plans	Strategic delays, but stronger decision power
IPs	Process management	Professionalism rising, but quality varies
NCLT/NCLAT	Judicial oversight	Case backlog affects resolution efficiency

Interpretation

The Committee of Creditors (CoC) plays a pivotal role in approving resolution plans. While the CoC has gained significant decision-making authority under the IBC, there have been instances of strategic delays in decision-making, often due to conflicting interests among creditors or prolonged negotiations with resolution applicants.

Insolvency Professionals (IPs) are central to managing the resolution process. Their professionalism has improved over time due to experience and regulatory oversight. However, the quality of performance still varies, with disparities in expertise, capacity, and ethical conduct observed across cases.

The National Company Law Tribunal (NCLT) and its Appellate Tribunal (NCLAT) are entrusted with judicial oversight. While they provide a legal backbone to the IBC, the growing case backlog and limited judicial capacity have become major hurdles, often resulting in delays and affecting the intended time-bound nature of the resolution process.

Table 5: Sectoral Analysis

Sector	Cases Filed	Recovery Potential	Bottlenecks
Steel	High	High	Asset-rich firms enable better recovery
Infrastructure	Moderate	Mixed	Regulatory and legal legacy issues
Textiles	Moderate	Low	Obsolete tech and demand decline
Real Estate	Increasing	Low	Litigation and buyer complexities
Power	Moderate	High	Long PPAs and physical assets aid recovery
Telecom	Low	Low	High debt, spectrum disputes, outdated models
Aviation	Low	Low	Volatile fuel costs and lease liabilities
Automobile	Moderate	Moderate	Supply chain issues, but strong brand equity
Pharmaceuticals	Low	High	Strong IP base and export potential
Hospitality	Increasing	Moderate	Seasonal demand and lease-heavy models
Retail	Moderate	Low	Thin margins, high competition, online shift
Cement	Low	Moderate	Capital intensive, but strong asset base

Interpretation

Asset-heavy and regulated sectors such as Steel, Power, and Pharmaceuticals tend to exhibit higher recovery potential, mainly due to tangible assets, long-term contracts, or valuable IPs. Steel and Power benefit from operational viability and fixed infrastructure, while Pharmaceuticals show strong investor interest due to global demand and patent protection. In contrast, Telecom, Retail, and Textiles show low recovery due to rapid technological changes, thin margins, or outdated business models. Real Estate and Aviation suffer from complex litigation, fluctuating costs, and regulatory ambiguities, reducing creditor returns.

Sectors like Automobiles, Hospitality, and Cement present moderate potential-they may attract resolution applicants if operations are streamlined and liabilities are manageable.

Terminology Guide

- **High:** Involves a large number of cases (for filings),

recovery over 50% (for potential), or serious structural/legal hurdles (for bottlenecks).
- **Moderate:** A balanced level of activity, recovery potential between 25–50%, or manageable but notable challenges.
- **Low:** Few cases filed, recovery under 25%, or severe bottlenecks making resolution unattractive.

Table 6: Comparative Global Analysis

Feature	U.S. Chapter 11	UK Administration	Indian IBC
Control Mechanism	Debtor-in-possession	Administrator-led	Creditor-in-control
Speed of Resolution	Moderate	Fast (esp. pre-pack deals)	Moderate to slow
Flexibility in Plans	High	Moderate	Low
Transparency & Accountability	High	Low in pre-packs	High

Interpretation: The U.S. Chapter 11 offers high flexibility and transparency but slower resolutions. The UK Administration is fast due to pre-pack deals but lacks transparency. The Indian IBC ensures creditor control and transparency but suffers from slower resolution and limited restructuring flexibility.

Conclusion and Policy Recommendations

The IBC has substantially improved India's insolvency framework by reducing resolution times, improving recoveries, and creating a structured mechanism for creditor empowerment. However, institutional constraints, stakeholder coordination issues, and sector-specific challenges persist.

Policy Recommendations

- Strengthen NCLT infrastructure and expand benches.
- Digitize case management and resolution tracking.
- Enhance training and certification for Ips.
- Introduce sector-specific resolution mechanisms.
- Promote out-of-court restructuring and pre-packs.

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