PRESS RELEASE
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Realisations for financial creditors through IBC to take a hit in FY2021 and FY2022; Pandemic and suspension of fresh proceedings pose new challenges: ICRA

- ***Financial creditors expected to realise Rs 600 - 700 billion through the IBC in FY2021, a significant decline compared to FY2020***

- ***Realisations for financial creditors in FY2022 could be even lower due to the suspension of fresh insolvency proceedings for one-year period***

The outbreak of Covid-19 pandemic and the suspension of new proceedings under the Insolvency and Bankruptcy Code (IBC) is expected to result in significantly lower realisations, by 30-40% for the financial creditors in FY20-21 and pose new challenges. ICRA expects the resolution of corporate insolvency resolution proceedings (CIRPs) would be impacted during FY2021 due to a decline in the number of CIRPs yielding a resolution plan as well as an increase in haircuts that lenders would have to take. The financial creditors could realise about Rs. 600 - 700 billion in FY2021 through successful resolution plans from the IBC as compared to about Rs. 1,000 billion realised in FY2020. The resolution amount would also be lower in FY2021 as the previous year witnessed large-size non-performing assets successfully concluding the CIRPs. In the current fiscal, successful resolution of a large housing finance company is going to be the key determinant of the extent of amount the financial creditors would realise during the year. The ratings agency further notes that realisations from resolution plans could further suffer in FY2022 as fresh insolvency proceedings have been suspended for one-year period. New insolvency proceedings initiated in FY2022 are unlikely to get resolved in the same fiscal, given the typical average time period seen for CIRPs to conclude with a resolution plan is quite high.

Commenting on the lower realisations from IBC, **Mr. Abhishek Dafria, Vice President, ICRA**, says, *"The pandemic has thrown up new operational challenges for the various parties involved in a resolution process, this could result in limited cases yielding a resolution plan, especially in Q1 FY2021. In the current environment, the on-going and even future CIRPs are likely to suffer from lower valuations and possible lesser interest from bidders due to the uncertainty across many sectors. This in turn may result in creditors having to agree on higher haircuts. The time period required for successfully concluding a CIRP would also increase, as in addition to the lock-down period, the creditors need to provide additional time to the bidders for due diligence or in case of unsatisfactory bid results, may have to go for extension of bid timelines or for further rounds of bidding."*

On the other hand, says ICRA, suspension of fresh insolvency proceedings for a period of one year would ensure relief for the companies that are severely impacted by the Covid-19 pandemic and are unable to meet payments to their creditors. However, if the severity of the pandemic were to increase, thus delaying economic revival, then we could see a sudden s

urge in cases being referred under the IBC after the one-year period. This would be detrimental to the resolution process which is already facing challenges from over-burdened tribunals. Against the stipulated resolution period of 330 days, the average time taken for completion of the CIRPs yielding approval of resolution plan has been 415 days. For cases ordered into liquidation, the average time taken in the CIRP process has been 309 days. After this, the average time taken for liquidation process has been around 1-2 years, thus substantially eroding the value of recovery as well as time value of money for the lenders.

Adds **Mr. Sankha Banerjee, Assistant Vice President, ICRA**, *"Till March 2020, the financial creditors had realised Rs 1,742 billion (~45% of claims) from CIRPs that had yielded a resolution plan, mainly due to resolution of eight large companies out of RBI's first list of twelve large non-performing assets. Realisation from these eight companies alone stands at about Rs 1,360 billion (~57% of claims). However, many cases have seen delays in implementation of the resolution plans even after the tribunal's approval due to substantial litigation in higher courts or enforcement actions, refusal of resolution applicant to abide by the resolution plan etc. Many large value accounts took more than 6 months for the resolution to be finally settled even after the tribunal's approval, thus resulting in decrease in the time value of the lenders' realisation. However, as fresh applications under IBC process is barred for one year, the burden on the NCLTs may reduce to some extent and focus can be on expediting the hearing and judgement of the cases currently under process."*

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