



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

INSOLVENCY AND BANKRUPTCY CODE

*Realisations for financial
creditors through IBC take
a hit in FY2021; remain
uncertain for FY2022 as
well due to current
suspension of fresh
insolvency proceedings*

DECEMBER 2020



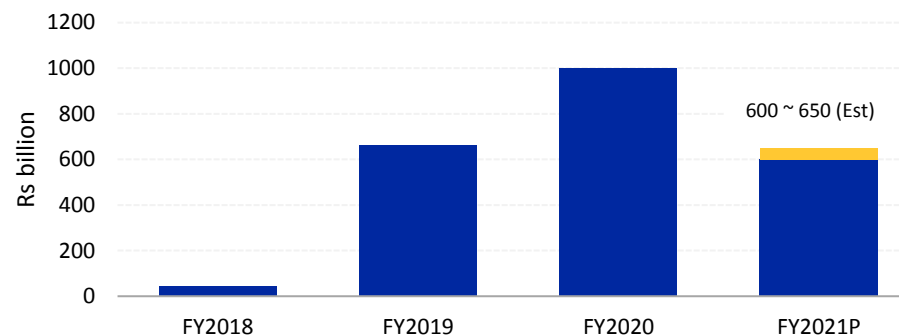
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FINANCIAL CREDITORS MAY REALISE RS. 600-650 BILLION THROUGH IBC IN FY2021, A SIGNIFICANT DECLINE FROM FY2020

The Covid-19 pandemic and the suspension of new proceedings under the Insolvency and Bankruptcy Code (IBC) have led to a sharp slowdown in the resolution process. Accordingly, the realisation for financial creditors from the resolution of corporate insolvency resolution processes (CIRPs) under the IBC has declined significantly in FY2021. The pandemic has increased the operational challenges for the various parties involved in a CIRP, which has resulted in limited cases yielding a resolution plan. Further, ICRA estimates that the difficult operating environment would result in an increase in the haircuts that the lenders would have to take. As per ICRA’s estimates, the financial creditors could realise Rs. 600-650 billion in FY2021 through successful resolution plans from the IBC compared to about Rs. 1,000 billion realised in FY2020 (refer Exhibit 1). The resolution amount would also be lower in FY2021 as the previous year witnessed the successful completion of the CIRPs for large-sized non-performing assets (NPAs) such as Essar Steel Limited and Bhushan Power & Steel Limited, though the latter case is still under litigation in higher courts. Similarly, in FY2021, the realisation by the financial creditors would largely depend on the expected successful resolution of Dewan Housing Finance Corporation Limited (DHFL), as more than 50% of ICRA’s estimated realisation for the year could be from DHFL’s resolution plan alone. DHFL is the first and only financial service provider (FSP) admitted for resolution under the Insolvency and Bankruptcy Rules, 2019, notified in November 2019.

Exhibit 1: Realisation for financial creditors from CIRPs yielding resolution



P: Projected; Est: Estimated

Source: The Insolvency and Bankruptcy Board of India (IBBI), ICRA research

SHARP DECLINE IN CASES ADMITTED AND RESOLVED THROUGH IBC IN H1 FY2021

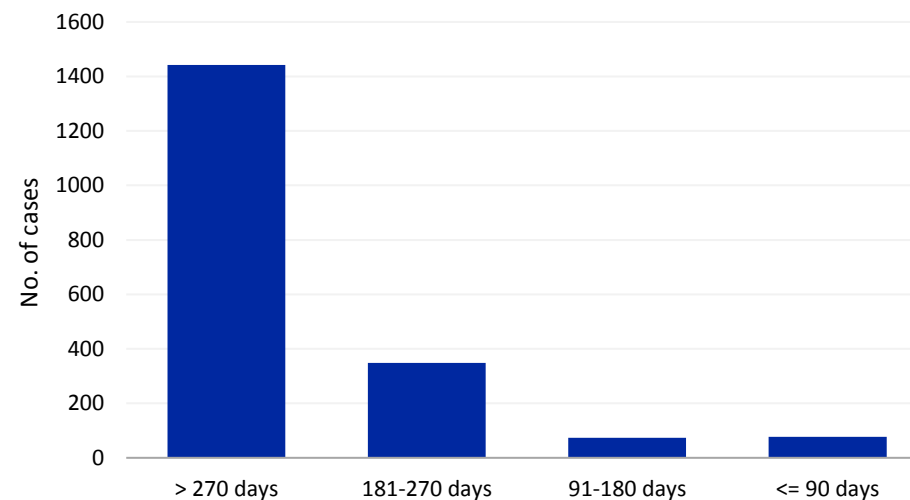
The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2020 was promulgated on June 5, 2020 to further amend the IBC to suspend the filing of applications for the initiation of CIRPs for any default arising on or after March 25, 2020 for a period of six months or such further period, not exceeding one year from such date. The Insolvency and Bankruptcy Code (Second Amendment) Act, 2020 was enacted on September 23, 2020 to replace the said Ordinance. The Central Government, vide a notification dated September 24, 2020, then extended the suspension of the filing of applications for the initiation of CIRPs by another three months from September 25, 2020.

This has impacted the number of cases admitted under IBC, as expected. In H1 FY2021, the number of cases admitted (which were in default before the suspension was announced) declined by 82% (161 vs 889) compared to H1 FY2020. However, this did not help in clearing the backlog of cases under the IBC process due to the temporary reduction of burden on the National Company Law Tribunal (NCLT), as the pandemic-related lockdown has impacted the smooth operations of all stakeholders involved in the process. The number of CIRPs closed in H1 FY2021 also declined by 61% (185 vs 475) compared to H1 FY2020. The resolution process was successfully approved for only 42 cases in H1 FY2021, yielding Rs. 126 billion as recovery for financial creditors. Notable among them is Amtek Auto, a part of the Reserve Bank of India's (RBI) initial list of 12 large defaulting companies [refer Annexure for CIRP details of these 12 companies]. Amtek Auto's CIRP had to recommence even though the first resolution plan was approved in July 2018, as the resolution applicant refused to abide by the resolution plan.

REALISATIONS FOR FINANCIAL CREDITORS IN FY2022 ALSO UNCERTAIN DUE TO ONGOING SUSPENSION OF FRESH INSOLVENCY PROCEEDINGS

ICRA further notes that the realisations from resolution plans could continue to suffer in FY2022 as fresh insolvency proceedings have been suspended (as detailed above) and the backlog of cases is still significant. New insolvency proceedings initiated in FY2022, once the suspension on fresh insolvency proceedings is lifted, are unlikely to get resolved in the same fiscal, as the typical average time-period seen for CIRPs to conclude with a resolution plan is quite high (currently 433 days). Thus, ICRA expects both FY2021 and FY2022 to see relatively lower realisations from CIRPs for lenders compared to the preceding years.

Exhibit 2: Timelines for ongoing CIRPs as on September 30, 2020



Source: IBBI, ICRA research

ANNEXURE

Exhibit 3: Progress of CIRPs for RBI's list of 12 large defaulting companies

Corporate debtor	Financial creditor claims (Rs. billion)	Claims realised (Rs. billion)	% haircut	CIRP duration	Status
Bhushan Steel Limited	560.2	355.7	37%	293 days	Completed; acquired by Tata Steel
Essar Steel India Limited	494.7	410.2	17%	583 days	Completed; acquired by ArcelorMittal
Alok Industries Limited	295.2	50.5	83%	598 days	Completed; acquired by joint venture (JV) between Reliance Industries and JM Group
ABG Shipyard Limited	181.3	NA	NA	633 days	Ordered into liquidation
Electrosteel Steels Limited	131.8	53.2	60%	270 days	Completed; acquired by Vedanta
Monnet Ispat & Energy Limited	110.1	28.9	74%	371 days	Completed; acquired by JV between JSW Steel and Aion Investments
Jyoti Structures Limited	73.6	36.9	50%	631 days	Completed; acquired by high net worth individuals (HNIs)
Lanco Infratech Limited	452.6	NA	NA	385 days	Ordered into liquidation
Bhushan Power & Steel Limited	471.6	193.5	59%	771 days*	Resolution plan was approved by NCLT but further litigation ongoing at the Supreme Court
Amtek Auto Limited	123.2	26.1	79%	1,081 days^	Brought back to NCLT as previous resolution applicant did not proceed as per plan; NCLT approval received for the second time in July 2020
Jaypee Infratech Limited	231.8	232.2	0%	937 days	NCLT approval received in March 2020
Era Infra Engineering Limited	122.1	Pending	Pending	938 days (ongoing)	Ongoing

Source: ICRA research

* Resolution plan approved by NCLT but still under litigation at Supreme Court

^ CIRP was initially completed in 366 days but was subsequently brought back to the NCLT

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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