

STRUCTURED FINANCE

Creditor realisation crosses Rs. 3.5 lakh crore through successful resolutions under IBC; haircuts, however, continue to rise

DECEMBER 2024





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The Insolvency and Bankruptcy Code (IBC) has brought in some meaningful change over a period in debtor behaviour as the code acts as a deterrent for promoters to lose control of entities.

The total amounts realised by financial creditors in these cases crossed Rs. 3.5 lakh crore in September 2024, though the amount as a percentage of admitted claims continued to be low at ~31%.



The number of overall admitted corporate debtors since the introduction of IBC in 2016 has now crossed the 8,000 mark, with overall cases resolved through resolution plans crossing 1,000 in H1 FY2025.



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The number of cases being admitted to NCLT¹ was relatively low in H1 FY2025, which is an indication of the better credit profile of India Inc., in ICRA's view. Further, the banking industry has seen stressed assets at multi-year lows in the last few years.



The number of closed cases outpaced the number of cases admitted in Q2 FY2025, which is encouraging, as it improves the bandwidth available with the NCLT benches.



Timelines in the IBC continue to be high, dragged on by legacy cases, which has also impacted the recovery. While various amendments are being proposed to the code, their impact on the resolution timeframe would be critical, going forward.



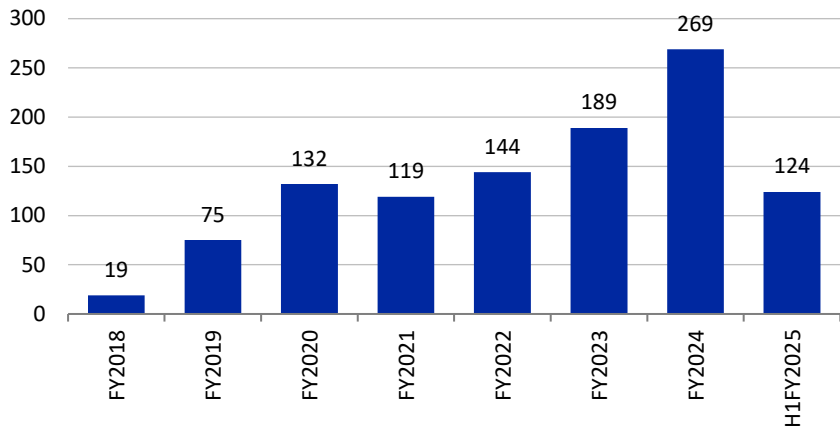
Over a period, it has been seen that the share of financial creditors (FCs) has risen in initiating the CIRP² proceedings while the share of operational creditors (OCs) has been declining. Further, the share of cases from the real estate (RE) sector has been on an increasing trajectory.

¹ National Company Law Tribunal

² Corporate Insolvency Resolution Process

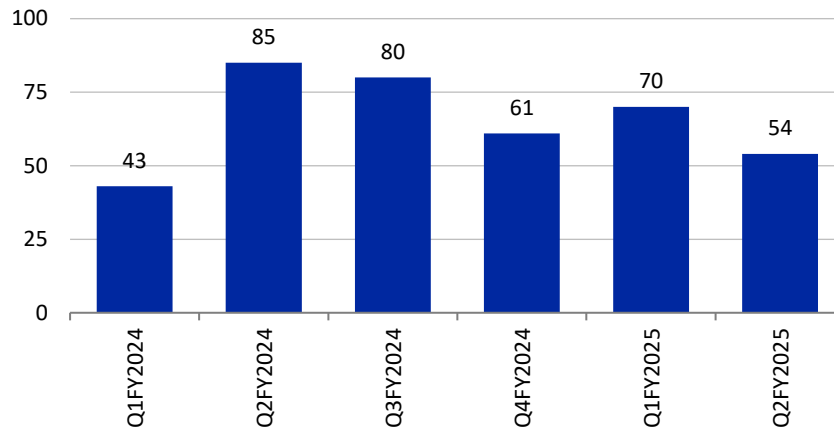
Slowdown in number of resolution plans approved under IBC in Q2 FY2025

Exhibit: Number of resolution plans approved under IBC



Source: IBBI, ICRA Research

Exhibit: Number of resolution plans approved under IBC (last 6 quarters)



Source: IBBI, ICRA Research

A record number of resolution plans were approved in FY2024 driven by a robust traction seen in Q2 FY2024 and Q3 FY2024, extending the trend of a healthy improvement in the number of resolution plans approved following the end of the pandemic. However there has been a slowdown after Q3 FY2024 with the number of resolution plans declining and hitting a five-quarter low of 54 in Q2 FY2025. However, given that a fewer number of cases have been admitted in H1 FY2025, the number of live cases has not increased sharply. This is likely to improve the bandwidth of NCLT benches.

Improvement in closures and reduction in admitted cases a positive

Exhibit: Year-wise CIRP additions and closures

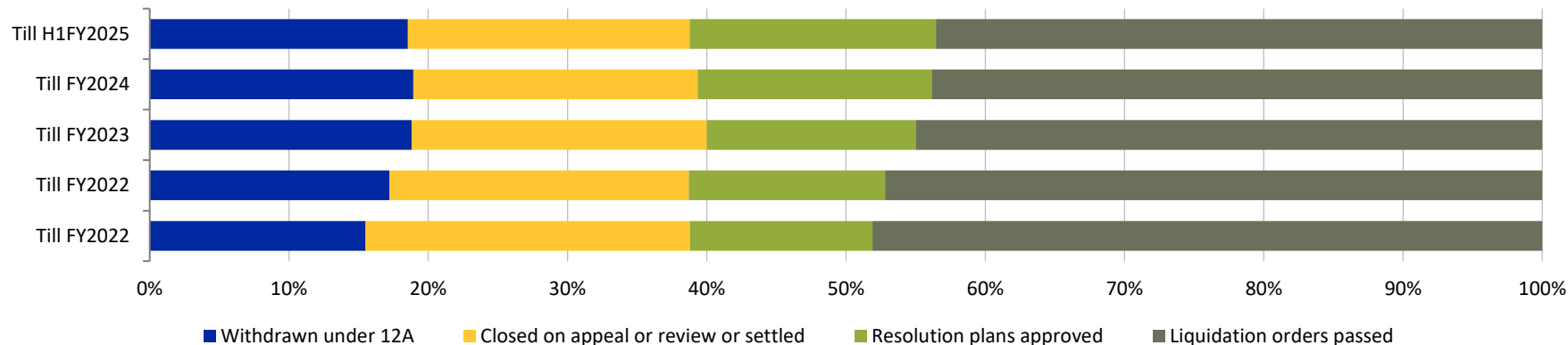


Source: IBBI, ICRA Research

Following a slowdown in the number of cases admitted under IBC due to the regulatory moratorium during the Covid-19 pandemic, the number of cases admitted subsequently crossed 1,250 in FY2023. However, the number of cases admitted dipped in FY2024, and the same trend has continued in H1 FY2025, which can be attributed to improvement in the credit profile of India Inc. While the number of cases closed is lower in H1 FY2025, the latter outpaced the number of cases admitted in Q2 FY2025, which is a healthy sign.

Share of resolution plans improving while that of liquidations declining

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

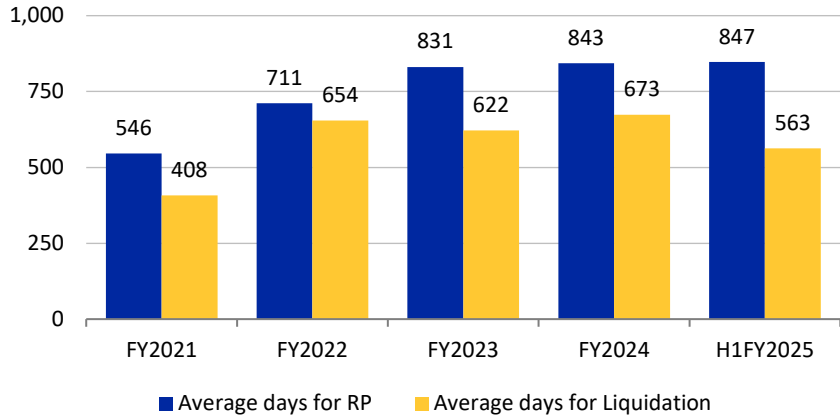


Source: IBBI, ICRA Research

The share of withdrawals has been increasing, touching ~20% as on H1 FY2025, which is likely on account of debtors willing to settle their defaults to avoid the CIRP process. Encouragingly, the share of approved resolution plans has also been increasing, rising to ~18% till H1 FY2025 from ~13% till FY2022, which is in line with the objective of the code to maximise resolution and preserve economic value of assets. While the share of liquidation continues to be high at ~44%, it has declined from 48% in FY2022. While ICRA expects these trends to continue, a meaningful increase in the share of successful resolution plans will be critical to improve overall realisations through the IBC process.

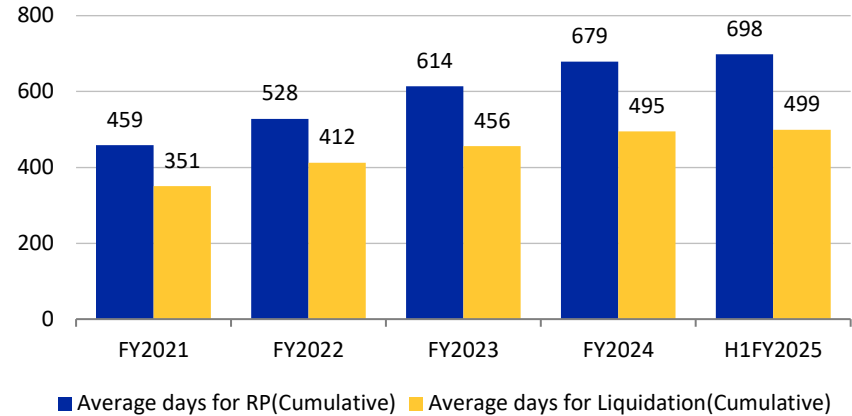
Legacy cases keep dragging on resolution process ...

Exhibit: Average days for CIRP process



Source: IBBI, ICRA Research

Exhibit: Cumulative average days for CIRP process

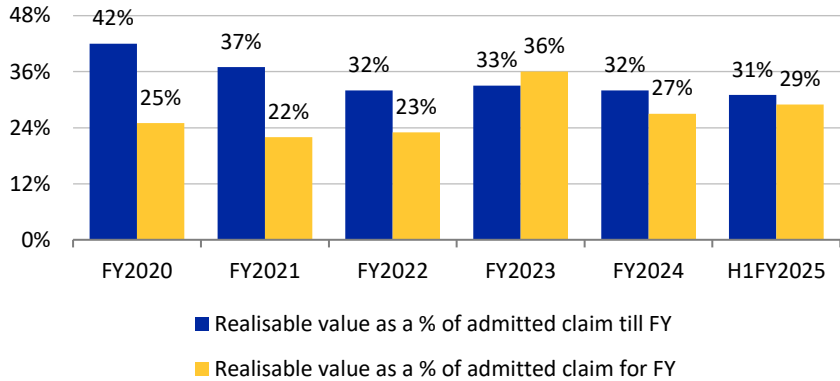


Source: IBBI, ICRA Research

The average days for resolving CIRPs either through a resolution plan or liquidation have been generally on an increasing trend. The average days for liquidation decreased in H1 FY2025 after seeing an all-time high of 673 days as of FY2024; however, it continues to be high. The period taken to resolve a CIRP continues to exceed that envisaged at the time the IBC was introduced. ICRA believes that decrease in the timeframe for recovery is needed to ensure retention of value in the underlying assets; the latter would maximise recovery as lender haircuts continue to be high.

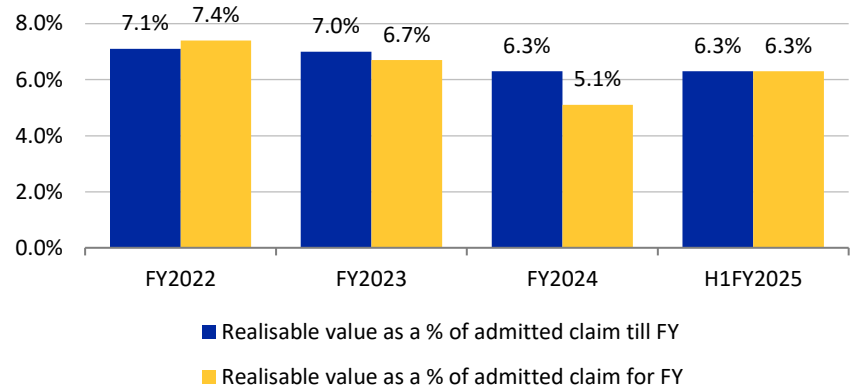
... lead to significant haircuts for lenders

Exhibit: Realisation for CIRPs leading to resolution plan



Source: IBBI, ICRA Research

Exhibit: Realisations for CIRPs leading to liquidations

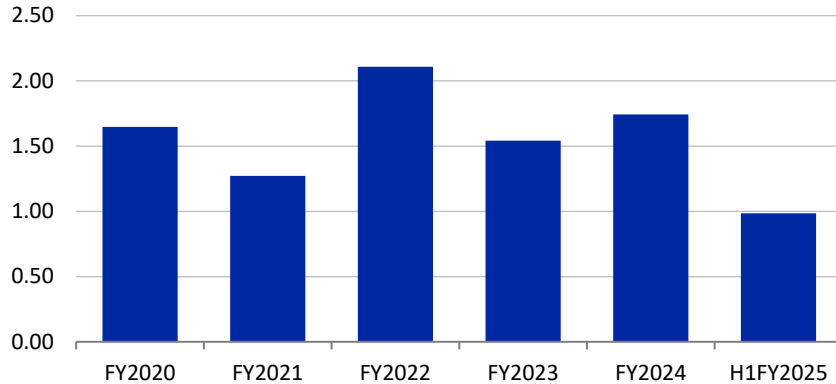


Source: IBBI, ICRA Research

The prolonged period for resolution of cases has been a key factor in the muted recovery seen under IBC as the delays erode the value of the assets. While there has been some improvement in recovery in H1 FY2025, the haircuts faced by lenders continue to be high at ~69%. The total amounts realised by the financial creditors in these cases crossed Rs. 3.5 lakh crore in September 2024. The share of cases resolved through liquidation, however, has been declining and the recovery seen in these cases remains low at 6.3% for H1 FY2025. Timely resolution of CIRPs along with the ability of creditors to continue to keep the defaulting debtor as a going concern through a successful resolution plan instead of seeking liquidation of assets should remain key focus areas, going forward.

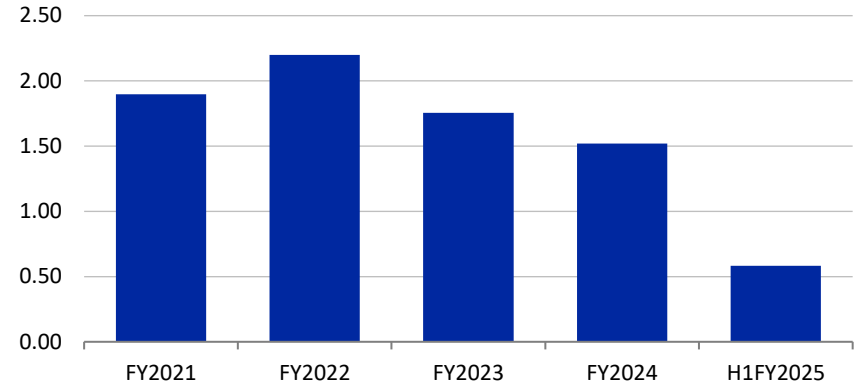
Rise in creditor claims resolved through resolution process

Exhibit: Admitted claims resolved through resolution plan (Rs. lakh core)



Source: IBBI, ICRA Research

Exhibit: Admitted claims resolved through liquidation (Rs. lakh core)

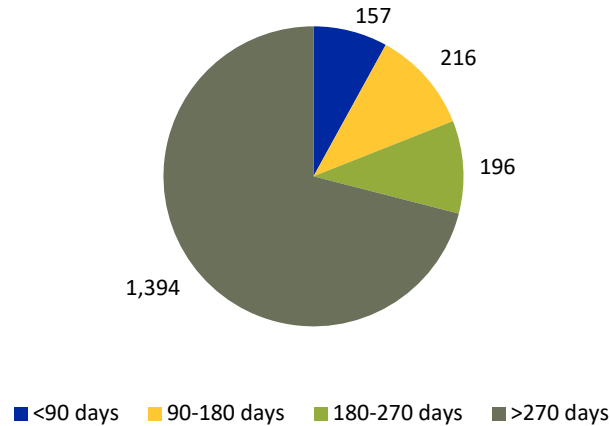


Source: IBBI, ICRA Research

With FY2024 seeing a record number of resolution plans approved, the amount of resolved claims touched ~Rs. 1.75 lakh crore. Despite a dip in the number of resolution plans approved in H1 FY2025, the resolved claims is just short of Rs. 1 lakh crore on account of resolution of high-ticket size cases, which is encouraging. In line with the reducing share of cases resolved through liquidation, the amount of claims resolved through liquidation has been on a declining trajectory after FY2022. In FY2024, the admitted claims resolved through a resolution plan surpassed those resolved through liquidation; a that trend has sharpened in H1 FY2025 with resolutions through liquidations being only 59% that of claims resolved through resolution plans. ICRA believes that continuation of this trend will be critical to the success of the IBC.

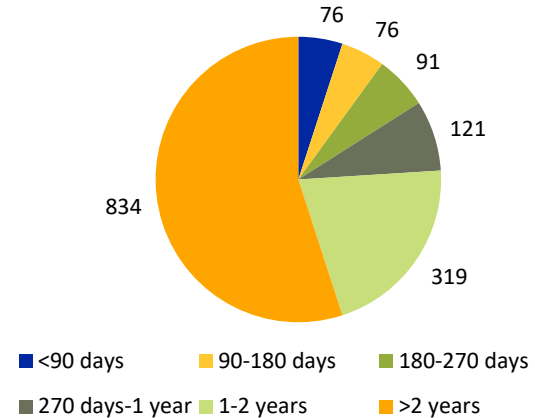
Drag on timelines led by high number of legacy cases awaiting resolution

Exhibit: Age of ongoing CIRP cases as of September 2024



Source: IBBI, ICRA Research

Exhibit: Age of ongoing liquidations as of September 2024

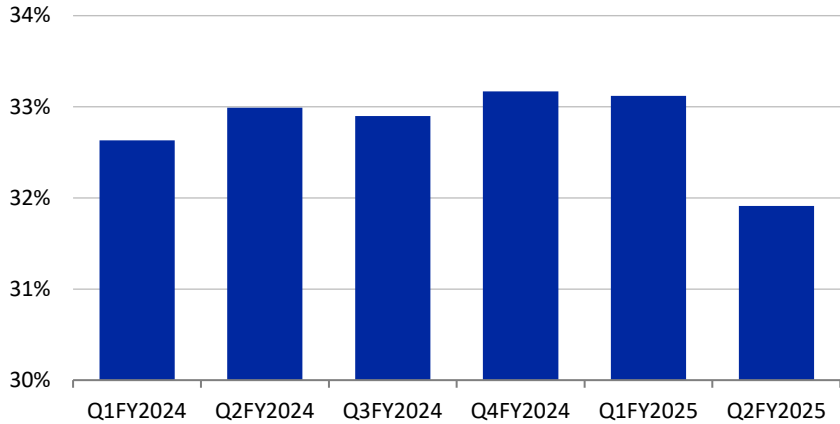


Source: IBBI, ICRA Research

One of the biggest challenges that IBC has faced is that of legacy cases, which continue to face challenges in both ongoing resolutions and liquidations. A high share of legacy cases continues to choke the bandwidth of NCLT benches and drive lower recovery. The situation is more concerning in liquidation where ~55% of cases have crossed two years. With recovery in liquidation cases being substantially lower, this has been a significant drag on the recovery for lenders from the IBC. Thus, a swifter resolution of legacy cases would be critical to the success of the code.

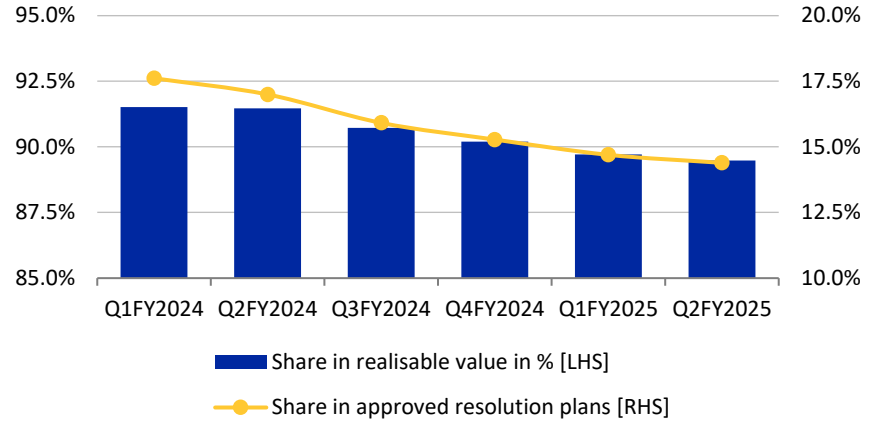
Dip in recovery seen in large accounts (admitted claims > Rs. 1,000 crore)

Exhibit: Recovery as trend seen in large accounts as % of admitted claims



Source: IBBI, ICRA Research

Exhibit: Trend in share of large accounts

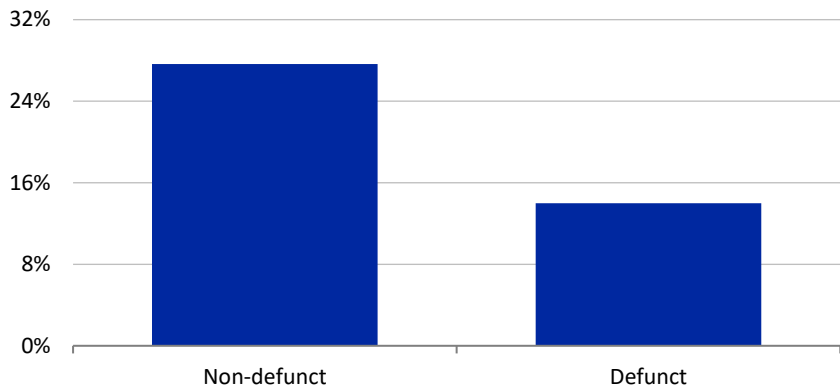


Source: IBBI, ICRA Research

As of September 2024, large accounts (admitted claims > Rs. 1,000 crore) have 14% share in resolved cases but have 89% share in the recovery and, thus, any improvement in recovery in these large accounts would drive the overall recovery. While the share of such cases in total approved cases and amount recovered have dipped in the last few quarters, they still constitute the bulk of recovery cases. Thus, a more focused approach towards the resolution of such large accounts is critical to improve the overall recovery for creditors through the IBC process.

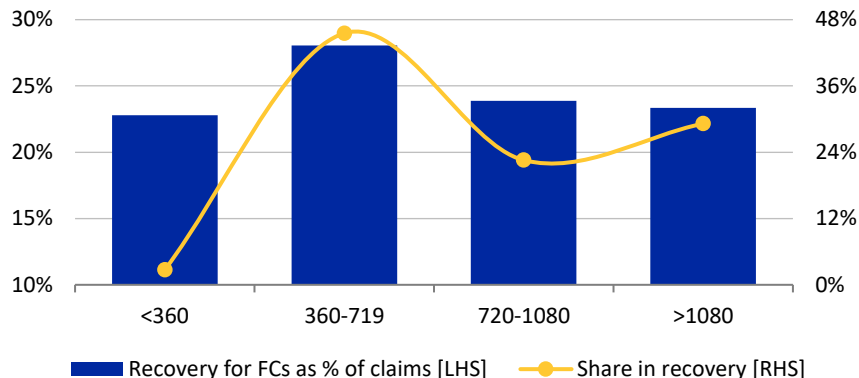
Sharp dip in recovery seen for defunct cases; most cases taking 1-2 years to resolve

Exhibit: Recovery as % of admitted claims through resolution plan



Source: IBBI, ICRA Research; data till September 2024

Exhibit: Recovery vis-à-vis the number of days for approval of resolution plan

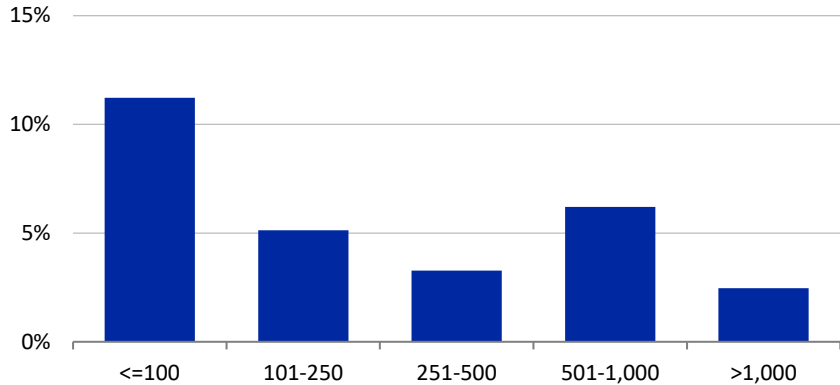


Source: IBBI, ICRA Research; data till September 2024

A key trend is the stark difference in the recoveries in comparison to the status of the corporate debtor (CD). In cases where the CD is defunct, the recovery rates dip sharply to ~50% of the recovery seen in non-defunct cases. This corroborates the need for an early resolution of the CIRP process as the value erosion has been high in defunct cases, which has resulted in lower recovery. For cases where the time for the approval of resolution plan (RP) takes over two years, the recovery rates have been lower. Bulk of the RPs have been approved with an average time frame of ~2 years. ICRA believes that given manufacturing still constitutes the highest share in the number of ongoing cases, a meaningful reduction in time frame for approval along with early admission of CD while operating can drive better recovery as obsolescence risk can be high in the sector.

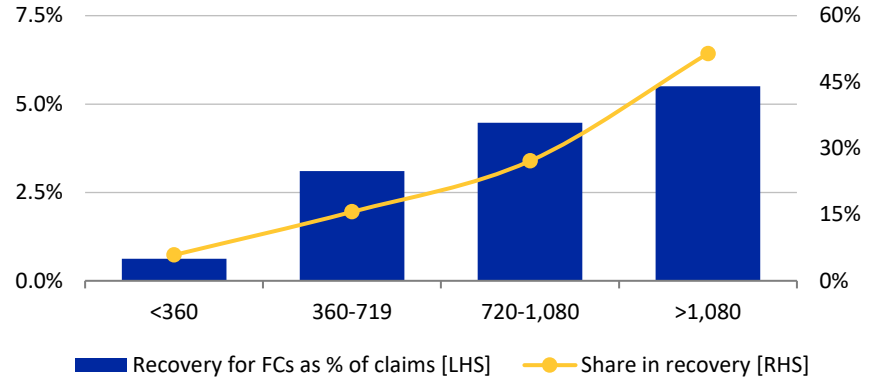
Lower recovery seen in liquidation of high-ticket cases

Exhibit: Ticket size vis-à-vis recovery (liquidation)



Source: IBBI, ICRA Research; data till September 2024

Exhibit: Liquidation days and share in recovery

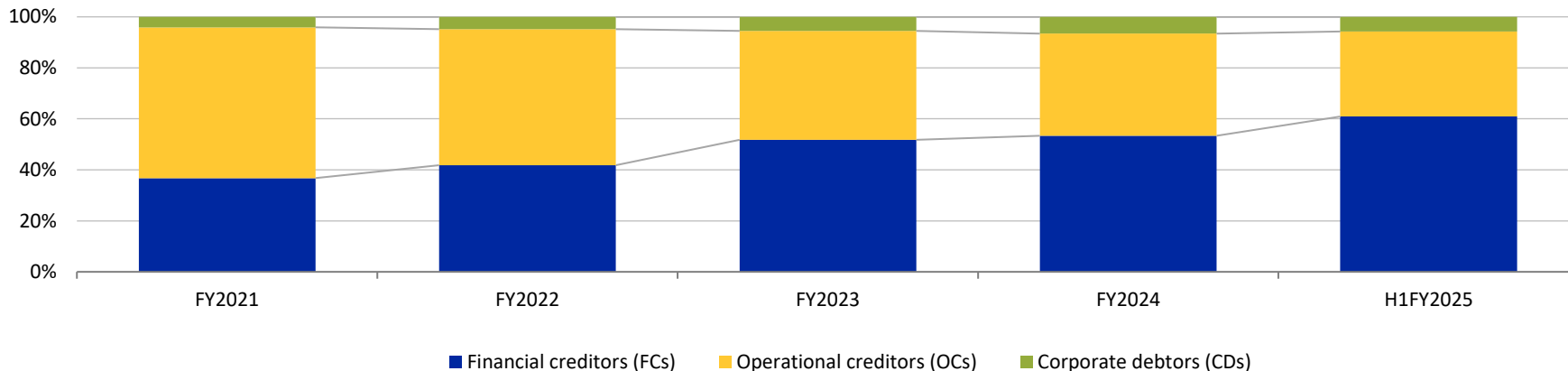


Source: IBBI, ICRA Research; data till September 2024

One of the biggest concerns of the IBC has been the higher share of liquidations and the lower recovery seen in the same. While nearly 73% of the liquidated cases are small cases (claims <=Rs. 100 crore), the recovery seen in these accounts is higher. A concern has been the very low recovery seen in larger cases (claims > Rs. 1,000 crore) whose share in liquidated cases has been ~8%. ICRA believe that while liquidation is not the preferred mode of recovery and the intent of IBC, an improvement in recovery from these large cases would drive overall recovery rates. As of September 2024, more than half the recovery through liquidation has taken more than three years and even in such cases the recovery has been ~5% for the FCs, thus entailing a haircut of ~95%, which is a concern.

Increasing share of financial creditors initiating CIRP process

Exhibit: Stakeholderwise share in initiation of CIRP process



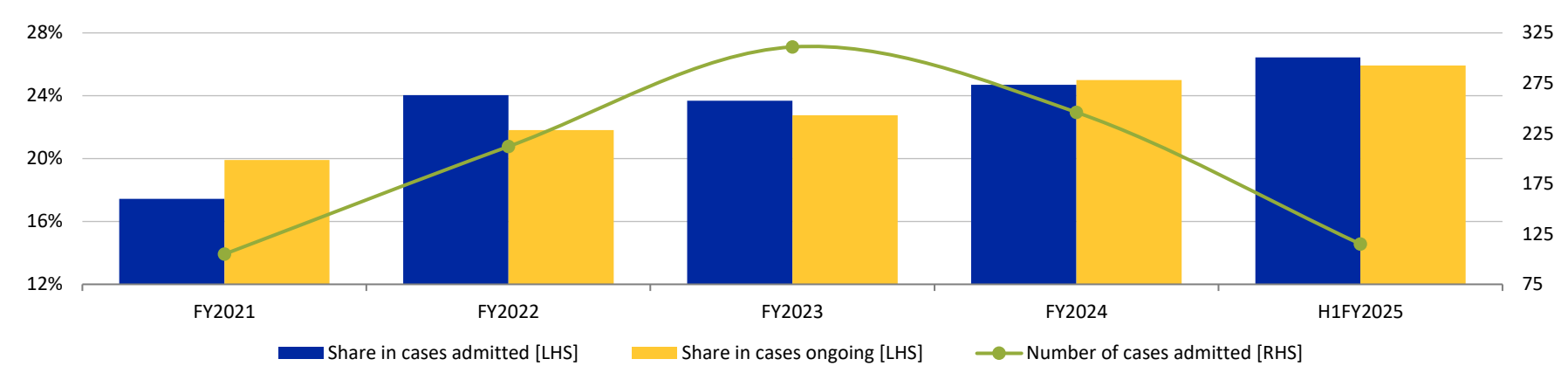
Source: IBBI, ICRA Research

Over a period, it has been seen that the share of FCs has risen in initiating the CIRP proceedings while the share of OCs has been declining. Typically, these creditors have a smaller quantum of claims, and it has been observed that 80% of the cases initiated by OCs had an underlying default of less than Rs. 1 crore. ICRA believes that cases with such low amounts under default can be better resolved via a standardised approach. While the Pre-Packaged Insolvency Resolution Process (PPIRP) has been rolled out for the MSMEs¹, which is a positive, its implementation has been muted. Recently, a discussion paper was circulated by the IBC governing body on mediation for OCs before approaching the NCLT to reduce the burden on the benches and thereby expediting admissions.

¹ Micro, Small and Medium Enterprises

Rising share of real estate sector cases

Exhibit: Trend in cases for real estate sector under IBC



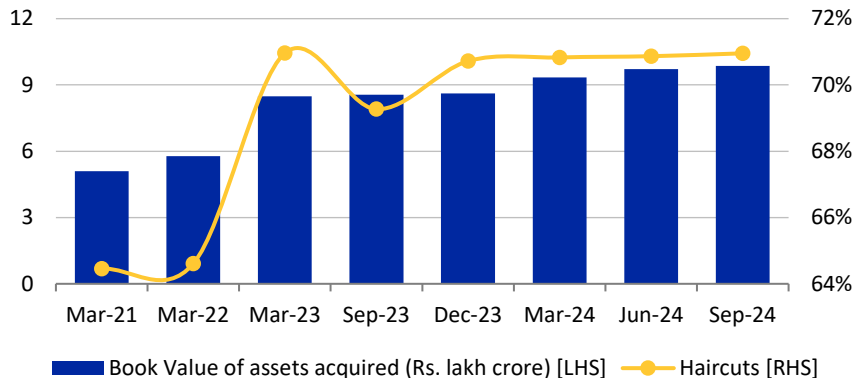
Source: IBBI, ICRA Research

While manufacturing continues to dominate with the highest share of admitted cases, there has been a trend in higher share of cases from the real estate sector being referred to IBC. In H1 FY2025, the share of cases admitted and ongoing crossed 25% indicating relatively higher stress seen in this sector as compared to other sectors. Many real estate projects have been delayed on account of funding constraints. An encouraging sign has been the decline in the absolute number of cases admitted in FY2024 over the previous year. The Government of India has also undertaken steps such as the initiation of Special Window for Affordable and Mid-Income Housing (SWAMIH) fund for stalled affordable housing projects. The IBBI¹ has also proposed reforms for the real estate sector, which ICRA believes would help in expediting the CIRP process for this sector.

¹ Insolvency and Bankruptcy Board of India

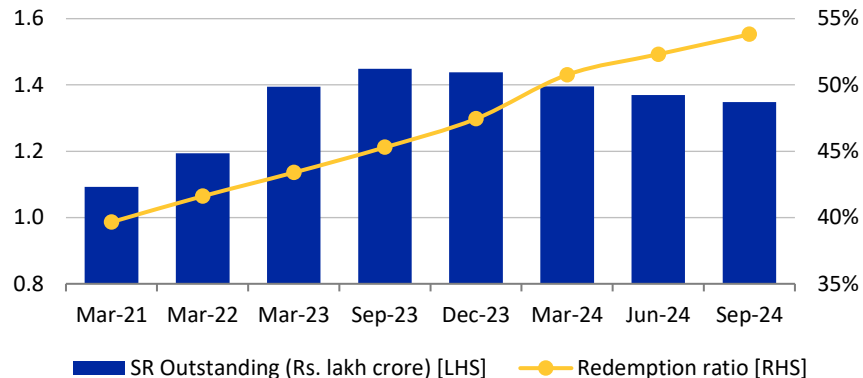
High haircuts and shrinking asset size for ARC industry; however, redemptions improving

Exhibit: Value of assets acquired and haircuts








Source: Association of ARCs, ICRA Research

Exhibit: Outstanding security receipts (SRs) and redemption ratio



Source: Association of ARCs, ICRA Research

The banking industry has seen stressed assets at multi-year lows in the last few years. Further, increased capital requirements along with other regulatory changes has also led to slowdown in growth of asset reconstruction companies (ARCs). While haircuts for lenders in ARC cases continue to be high, seen as a deterrent for many of them to approach ARCs, the redemption ratio (ratio of SRs redeemed to SRs issued) crossed 50% in March 2024. Strengthening of the IBC code would also be a shot in the arm for ARCs, many of whom continue to have a sizeable wholesale asset book despite shift towards a more retail/granular book by some ARCs. Resolution of stressed assets could also benefit from regulatory support, such as creation of a secondary stressed assets market and innovative financing solutions like securitisation of stressed assets over the long term.

| Centralised auction platform | Mediation for OCs | Guidelines for CoC | Real estate sector | MSME registration |
|--|---|---|--|--|
|  |  |  |  |  |
| <p>IBBI has mandated creation of a centralised auction platform for IBC liquidation cases. ICRA believes that this would enhance transparency as it would provide the bidder with access to details of the case and reduce information asymmetry. ICRA also believes a proper implementation of the database would improve recovery rates.</p> | <p>Recently, a discussion paper was circulated by the IBBI on mediation for OCs before approaching the NCLT. ICRA believes that this is a welcome step as it would reduce the burden on the benches, thereby expediting admissions.</p> | <p>IBBI issued guidelines for CoC¹ on August 6, 2024, to focus on time bound decision making and to prevent value erosion. The guidelines focus on improving transparency and coordination between the CoC members. ICRA believes that since the CoC largely represents FCs, any steps taken to improve the functioning of the CoC would help improve realisation for FCs.</p> | <p>Recently, a discussion paper was circulated by the IBBI to improve resolutions for the real estate sector under IBC. Since residential real estate projects also involve home buyers there is a social impact of these as well and, thus ICRA believes that steps to improve resolutions in the sector would have a socioeconomic impact.</p> | <p>Moreover, a discussion paper was recently circulated by the IBBI to streamline eligibility of MSMEs. ICRA believes that cases have clogged up in the IBC on account of a high number of MSME accounts and, hence, this is a positive step in this regard. Further, MSMEs play a crucial role in job creation and, thus their revival remains important.</p> |

¹ Committee of Creditors



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Analytical Contact Details

| Name | Designation | Email | Contact Number |
|------------------|--|--|-----------------|
| Abhishek Dafria | Senior Vice-President & Group Head | abhishek.dafria@icraindia.com | 022 - 6114 3440 |
| Sachin Joglekar | Vice-President & Co-Group Head | sachin.joglekar@icraindia.com | 022 - 6114 3470 |
| Gaurav Mashalkar | Assistant Vice-President & Sector Head | gaurav.mashalkar@icraindia.com | 022 - 6114 3462 |
| Abhishek Jena | Analyst | abhishek.jena@icraindia.com | 022 - 6114 3433 |





ICRA

Business Development/Media Contact Details

| Name | Designation | Email | Contact Number |
|-----------------|--|--|----------------|
| L Shivakumar | Chief Business Officer | shivakumar@icraindia.com | 022-61693304 |
| Neha Agarwal | Head – Research Sales | neha.agarwal@icraindia.com | 022-61693338 |
| Rohit Gupta | Head Business Development - Infrastructure Sector | rohitg@icraindia.com | 0124-4545340 |
| Vivek Bhalla | Head Business Development - Financial Sector | vivek.bhalla@icraindia.com | 022-61693372 |
| Vinita Baid | Head Business Development – Corporate Sector - West & East | vinita.baid@icraindia.com | 033-71501131 |
| Shivam Bhatia | Head Business Development – Corporate Sector - North & South | shivam.bhatia@icraindia.com | 0124-4545803 |
| Naznin Prodhani | Head - Group Corporate Communications & Media Relations | communications@icraindia.com | 0124-4545860 |





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