

Recovery Rate Dips to 28% in Q2FY25 as Stretched Timelines Hamper Resolution

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Synopsis

- The overall recovery rate till Q2FY25 was 31.04%, implying a haircut of approximately 70%. The cumulative recovery rate has been on a downtrend, decreasing from 43% in Q1FY20 and 32.06% in Q1FY25, as larger resolutions have already been executed and a significant number of liquidated cases were either BIFR cases and/or defunct with high-resolution time. However, a measure of the effectiveness of the code is the ratio of resolution to liquidation. With several initiatives to improve outcomes, the ratio has improved from 0.21 in FY18 to 0.68 in Q2FY25. Meanwhile, the average time taken for resolution or liquidation continues to increase for operational creditors (OCs) and financial creditors (FCs).
- After slowing during the pandemic of FY21 and FY22, the number of insolvency cases referred increased by around 13% y-o-y in Q2FY25. However, despite the increase, the number of cases admitted to the insolvency process remain lower compared to earlier quarters in FY20. The distribution of cases across sectors remains broadly similar earlier periods, given the extended resolution timelines.
- Meanwhile, the number of ongoing CIRPs continues to hover slightly below the 2,000-case mark, with manufacturing accounting for the largest number of cases.

Corporate Resolutions

The Recovery Rate Continues to be Stuck at just over the 30% Mark.

Figure 1: Summary of CIRPs Yielding Resolution

Particulars	Amt/%	
	For Q2FY25	Up to Sep. 2024
Total admitted claims of Financial Creditors (Rs cr)	44,281.3	114,4743.8
Liquidation value (Rs cr)	8,885.6	220,580.6
Realisable by FCs (Rs cr)	12,546.57	355,374.7
Realizable by FCs as a % of their claims admitted	28.33	31.04
Realisable by FCs as a % of their liquidation value	141.25	161.11

Source: IBBI

Following the implementation of the IBC, the overall recovery rate till Q2FY25 in India reached 31.04%. However, the recovery for Q2FY25 has marginally reduced from Q1FY25. Meanwhile, for the cases which have been resolved, the creditors have continued to face a haircut of approximately 70% on admitted claims. Some of the cases being disposed of are several years old. Thus, there is a huge amount of interest and overdue charges/costs admitted to such cases, inflating the overall claim figures.

Timelines Continue to Increase for Cases across the Board...

The delays for CIRP closure are higher compared to Liquidation across various categories of stakeholders, but the corporate debtors take somewhat less time for resolution compared to the other two stakeholders (financial creditor and operational creditor). On a sequential basis, the number of days has broadly increased across all categories.

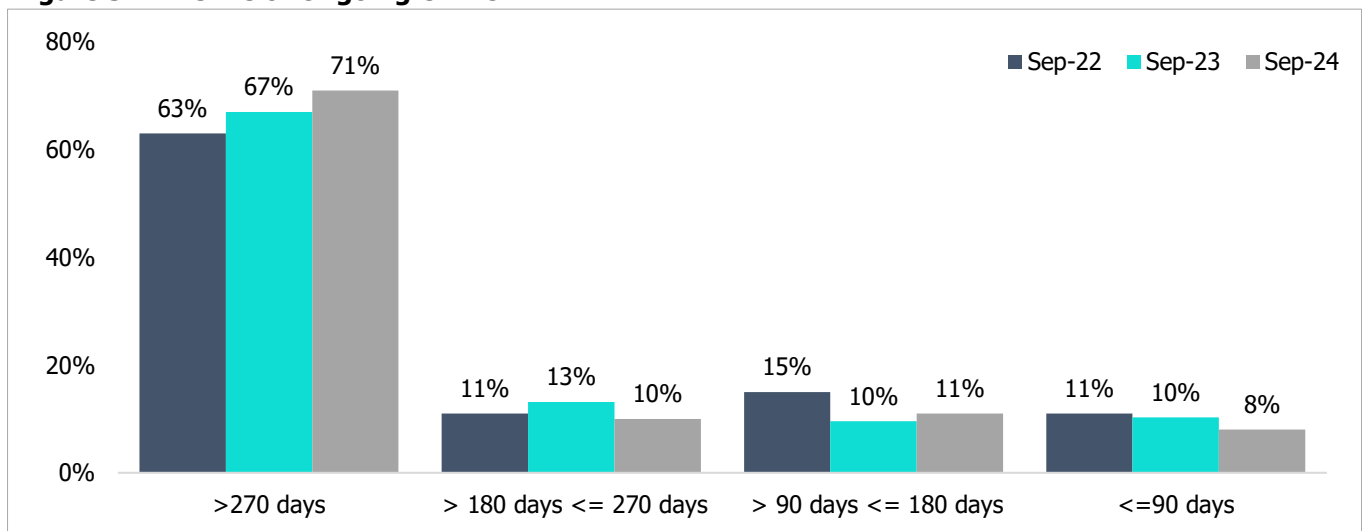
Figure 2: Timeline of Cases (# of days)

	Resolution					Liquidation			
	FC	OC	CD	FiSP	Total	FC	OC	CD	Total
Sep-24	704	714	572	677	698	508	504	442	499
Jun-24	692	700	564	677	685	508	504	442	499
Mar-24	683	691	573	677	679	495	492	437	495
Jun-23	643	635	541	552	632	480	458	391	462
Mar-23	613	632	541	-	614	476	450	390	456
Mar-22	531	528	516	-	528	433	401	373	412
Mar-21	463	458	439	-	459	366	344	324	351

Source: IBBI

Of the close to 2,000 ongoing CIRPs, there has been a delay of more than 270 days for the completion of the process of 71% of ongoing CIRPs in September 2024 as compared to 63% in September 2022 and 67% in September 2023. The share has broadly moved to the higher number of days tier. Further, we can observe that the 'less than 90 days' segment is the smallest highlighting the fact that while more cases are being added and earlier cases too are moving forward, they seem to be delayed in the process. Further, the share of 'more than 90 days but less than 180 days' and 'more than 180 days but less than 270 days' segments has reduced.

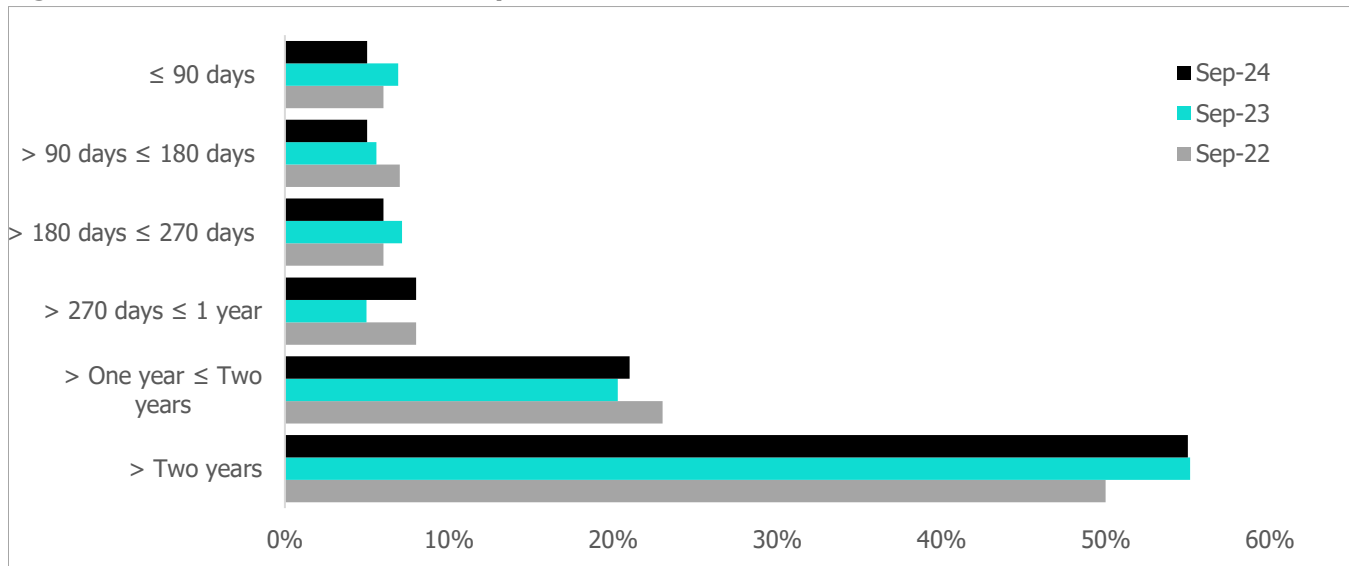
Figure 3: Timeline of Ongoing CIRPs



Source: IBBI

...and Even Time for Liquidation Remain Elevated

Figure 4: Timeline of Cases under Liquidation

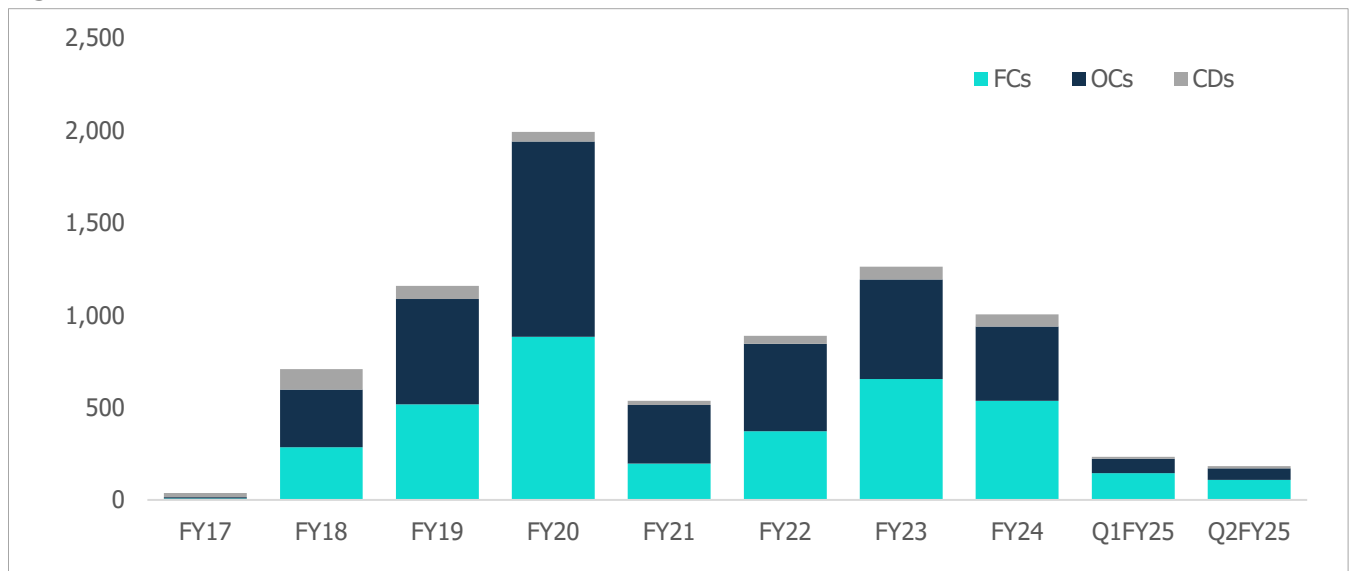


Source: IBBI

Figure 4 highlights the pendency even for cases which have gone into liquidation with nearly 55% of the cases pending for more than two years and 21% of the cases pending for more than one year but less than two years.

Additions to the Corporate Insolvency Resolution Process Continue to Grow at a Measured Pace

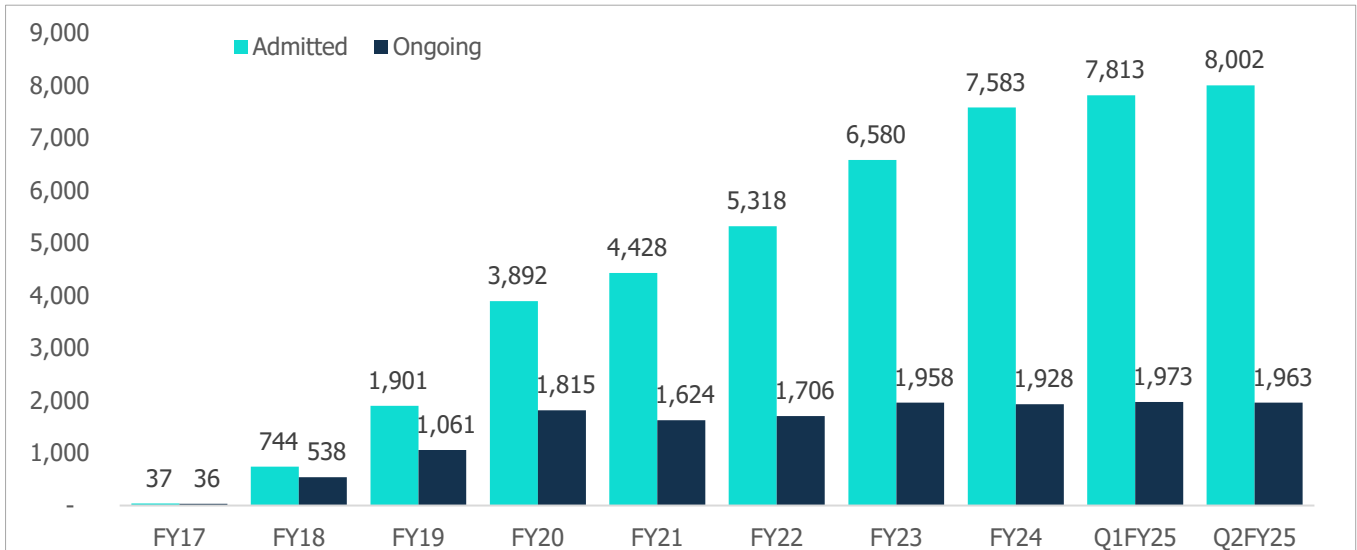
Figure 5: Year-wise & Stakeholder Initiation



Source: IBBI; Note: Excludes FiSPs admitted by the RBI

The CIRP initiation scaled up rapidly till FY20 and dropped off in FY21 due to the pandemic. In FY22 and FY23, CIRP initiation commenced rising again. In FY23, the number of cases crossed the FY19 threshold, and although the number of cases in FY24 has been lower compared to FY23, the number continues to rise albeit at a slower pace. In Q2FY25, around 180 cases were initiated. The share of CIRPs initiated by corporate debtors has reduced significantly over time and further, the number of cases initiated by operational creditors has reduced.

Figure 6: Cumulative # of CIRPs: Admitted vs Ongoing.

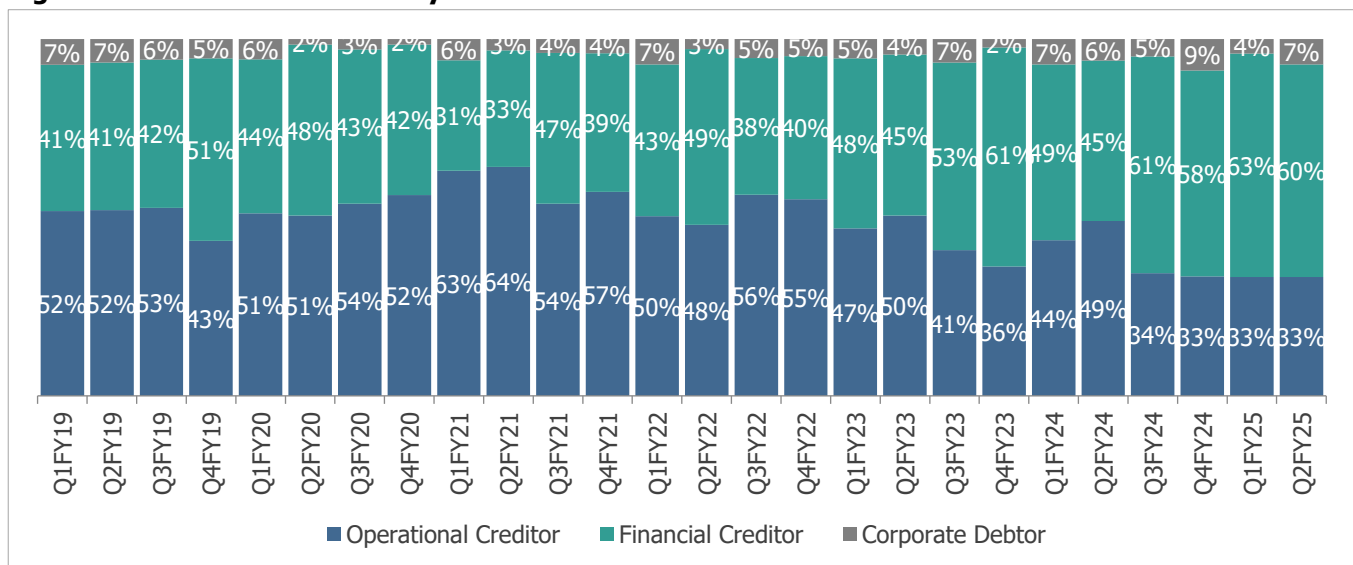


Source: IBBI

The number of cases admitted for Corporate Insolvency Resolution Process (CIRPs) have continued to come in each quarter since the launch of the Insolvency and Bankruptcy Code in 2016, highlighting the acceptance of IBC as an effective debt resolution mechanism. The admission of cases has increased y-o-y in Q2FY25 by over 13%, however, despite the increase, the number of cases admitted to the insolvency process continues to be lower compared to earlier quarters in FY20 and has fallen to less than 1,000 cases for the trailing 12 months period ended September 2024. Meanwhile, the number of ongoing cases has remained steady at around the 2,000-case mark for the last couple of years.

IBC has continued to gain in popularity, with over 8,000 companies being admitted and a significant number of these cases on a cumulative basis being filed by the financial creditors (3,706 cases) and the operational creditors (3,812 cases). The share of corporate debtors has continued to remain the smallest over the same period.

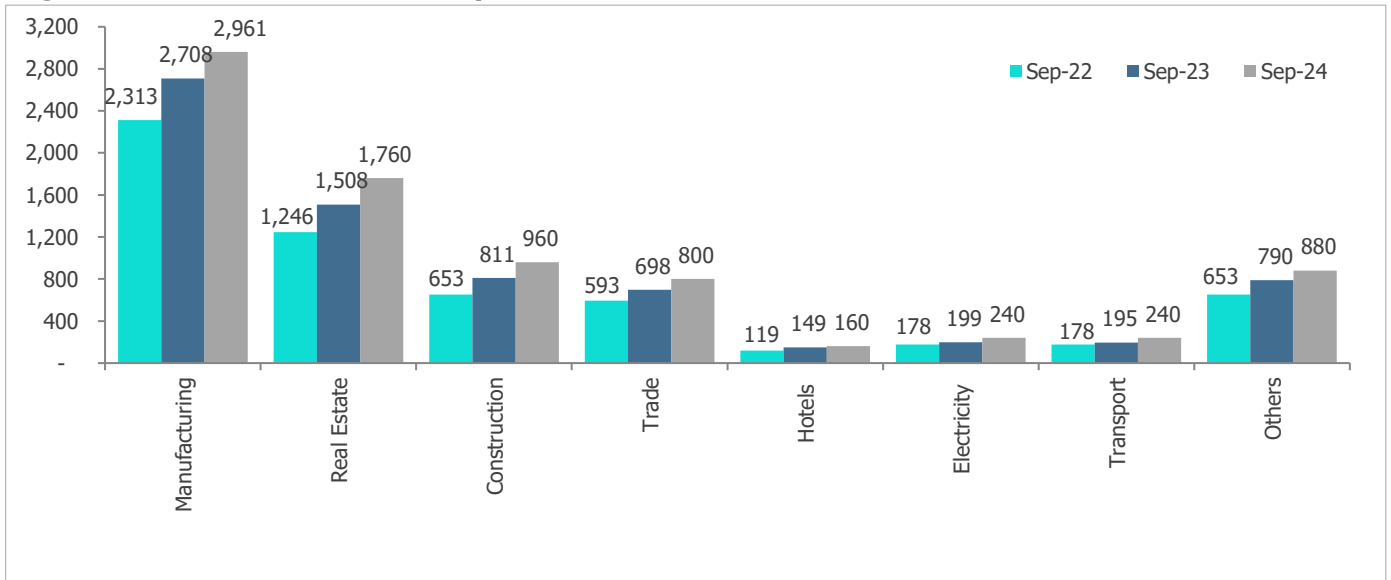
Figure 7: Share of Initiations by Financial Creditors has increased.



Source: IBBI

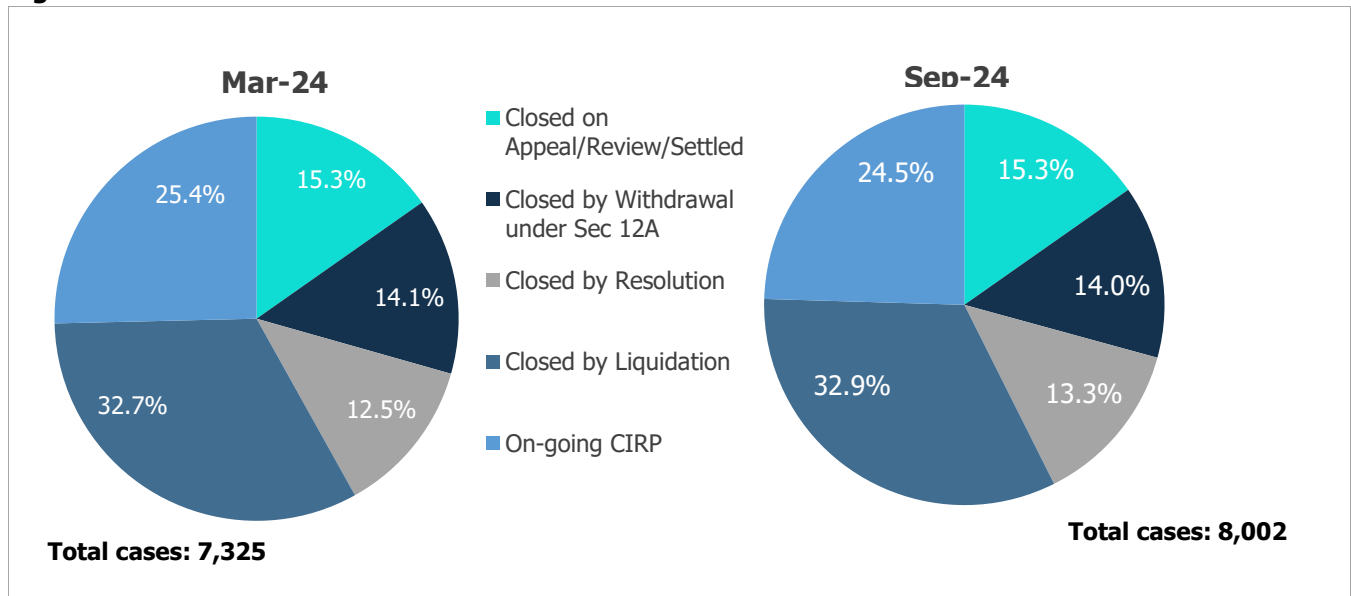
Figure 8 shows the dispersion of the admitted cases by sector. The share of the various sectors has largely remained constant compared with the previous period. As can be observed in Figure 12, the manufacturing sector accounts for the highest share at 37% of the overall cases, followed by the real estate (22%), construction (12%) and trade (wholesale & retail) sectors (10%).

Figure 8: Cumulative # of CIRPs by Sector



Source: IBBI

Figure 9: Status of CIRPs

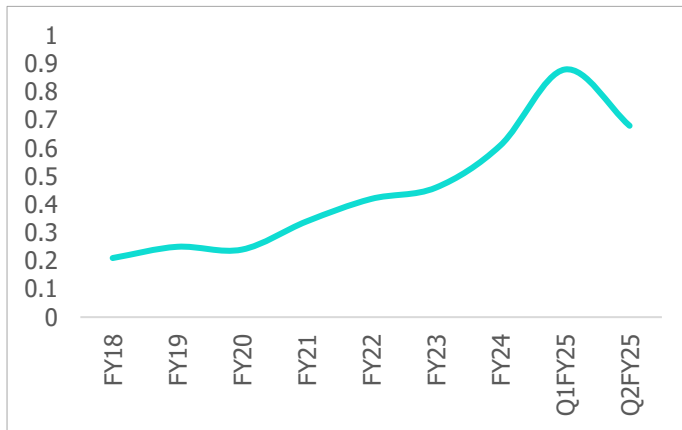


The status of the cases has largely remained constant compared with the previous period. Of the total 8,002 cases admitted into CIRP at the end of September 2024:

- Only ~13.3% have ended in approval of resolution plans, while 24.5% remain in the resolution process vs. 25.4% as of the end of March 2024.

- Liquidation remains the most common path of closure under the IBC process. Over 2,600 cases have ended in liquidation (32.9% of the total cases admitted). Meanwhile, over 70% of such cases were either BIFR cases and/or defunct.
- Around 15.3% (1,221 CIRPs) have been closed on appeal /review /settled, while 14.0% have been withdrawn under Section 12A. The primary reason for withdrawal has been either the full settlement with the applicant/creditors or other settlement with creditors.

Figure 10: Ratio of Resolution to Liquidation orders (# of cases)



Another measure of the effectiveness of the code is the ratio of resolution to liquidation. With several initiatives to improve outcomes, the ratio has improved from 0.21 in FY18 to 0.68 in Q2FY25, albeit weakening sequentially from 0.88 in Q1FY25.

Insolvency Resolution of Personal Guarantors

Apart from the details on the corporate insolvency process which have been covered later, figure 11 contains details on the insolvency resolution and bankruptcy proceedings related to personal guarantors.

Figure 11: Insolvency Resolution of Personal Guarantors

Period	Applications filed by				Total		Adjudicating Authority	
	Debtors		Creditors					
	No of Cases	Rs crore	No of Cases	Rs crore	No of Cases	Rs crore	NCLT	DRT
FY20	4	1,827.6	23	3,299.8	27	5,127.4	26	1
FY21	27	2,493.0	253	40,111.6	280	42,604.6	274	6
FY22	87	3,545.8	952	69,108.2	1,039	72,653.9	1,024	15
FY23	81	10,547.4	886	39,415.2	967	49,962.6	966	1
FY24	243	4,994.1	547	26,124.3	790	31,118.4	763	27
Q1FY25	39	1,658.3	205	11,791.6	244	13,449.8	244	-
Q2FY25	37	738.7	155	14,696.1	192	15,434.8	192	-
Total	518	25,804.7	3,021	204,546.7	3,539	230,351.5	3,489	50

Source: IBBI

Of the above 3,539 applications.

- 118 were withdrawn/rejected/dismissed before the appointment of a resolution professional.
 - Resolution professionals were appointed in 1,722 cases, while 597 cases have been admitted.
 - Out of these admitted cases, 163 have been closed, 12 have withdrawn, and 125 have been closed due to non-submission/rejection of plans.

- On an aggregate basis, only 26 have yielded approval of repayment plans and have realised Rs 102.8 crore which is 2.16% of their admitted claims.

Update on Avoidance Transactions

Under the IBC, resolution professionals (RP) can reverse any transaction entered by the debtor company before the IBC is invoked if the RP can prove that the transaction was intended to divert funds or alienate assets. These provisions are generally used on related party transactions, fund diversions and other relevant corporate actions and any money so recovered is distributed amongst the lenders. However, such claims can only be made after approval by the NCLT.

Figure 12: Status of Avoidance Transactions

Nature of Transactions	Applications Filed		Applications Disposed		
	#	Amount (Rs cr)	#	Amount inv. (Rs cr)	Amount rec. (Rs cr)
Preferential	201	29,881.9	74	1,373.6	38.3
Undervalued	37	1,817.4	5	362.4	5.8
Fraudulent	372	1,15,308.9	71	5,172.6	1,319.2
Extortionate	4	75.7	1	0.1	-
Combination	712	2,29,286.9	187	51,655.9	6,152.9*
Total	1,326	3,76,370.8	338	58,519.7	7,516.1*

Source: IBBI

As per Figure 12, RPs have filed 1,326 applications for avoidance transactions amounting to approximately Rs 3.76 lakh crore. Of these, only 338 transactions involving over Rs 58,500 crore (approximately 15.5% of the amount involved) were disposed of and only Rs 7,516.1 crore (12.8% of the amount disposed) have been recovered. Further, in one case 758 acres of land out of 858 acres which was earlier valued at approximately Rs 5,500 crore has been transferred; hence proportionate value has been considered.

Conclusion

IBC has gained prominence in the past few years with a recovery rate of around 31%. After slowing in the pandemic period of FY21 and FY22, the number of insolvency cases referred has increased yet the number of cases admitted continues to be lower compared to earlier quarters in FY20. Meanwhile, the number of ongoing cases has continued to hover slightly below the 2,000-case mark for the last couple of years. However, the quantum of time required to adequately resolve a case remains elevated, due to ongoing litigation at NCLT and other forums. Several measures are being contemplated to preserve the business value of the underlying asset and reduce the timeline such as formal out-of-court solutions such as Mediation, extension of the pre-pack resolution mechanism to larger firms (currently available for MSMEs), and insolvencies of group companies.

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