

IBC rescues poised to increase 50% in FY24

By the end-March, this fiscal's count may rise to around 275 resolutions

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NEW DELHI: The count of broke businesses finding new homes jumped in the fiscal year nearing its close, as well-staffed bankruptcy courts amped up decision-making.

By the end of February, various tribunal benches had approved 250 resolution plans, compared to 185 in all of FY23. By the end of March, this fiscal's count could rise to around 275, two people aware of the matter said, marking a near-50% jump over the previous year.

The pace of resolutions rose sharply as vacancies in benches of National Company Law Tribunal (NCLT) were filled up, and rule changes by regulator Insolvency and Bankruptcy Board of India (IBBI) improved the efficiency of the resolution processes under the Insolvency and Bankruptcy Code (IBC), one of the persons said on the condi-



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Quick revival of distressed businesses under IBC is a priority for policymakers as it cleans up corporate and bank balance sheets, and enables a fresh cycle of private investments—critical for adding momentum to economic growth—to kick in.

Data available from IBBI showed that from 2016 (when IBC became operational) to December 2023, bankruptcy resolution plans were approved for 891 companies. From these cases, creditors realized ₹3.2 trillion, which is more than the fair value of the assets of ₹2.97 trillion, although it is less than

their total claims of ₹10 trillion.

The second official said once resolution professionals get tribunal orders to recover dues from corporate guarantors—mostly promoters of defaulting companies—the amounts that creditors realize under IBC will see a sharp jump. The path has been cleared for this by the Supreme Court, when it upheld the constitutional validity of insolvency resolution of personal guarantors last November, the person added.

Meanwhile, the number of corporate turnaround plans approved so far this year has gone up from about 42 in the

June quarter to more than 80 in each of the September and December quarters, data available from IBBI showed.

“Increasingly, resolution plans which do not have too much complexity are being cleared proactively in several benches,” said Anoop Rawat, partner (insolvency and bankruptcy) at law firm Shardul Amarchand Mangaldas & Co. “Infusing similar efficiency in admission of cases will help in making IBC more effective in addressing distress in the corporate sector.” Experts said capital and efficient management are key elements of the revival of stressed assets under IBC, but many strategic investors that are looking to buy stressed assets face the challenge of finding a suitable asset due to key information not being available.

Most prospective resolution applicants, who are not already informed about the company, will not be able to form a view on whether to submit an expression of interest (EoI) in response to the information in Form G (invitation for EoI), explained Vishwas Panjiar, Partner, Nangia Andersen LLP, a business advisory firm.

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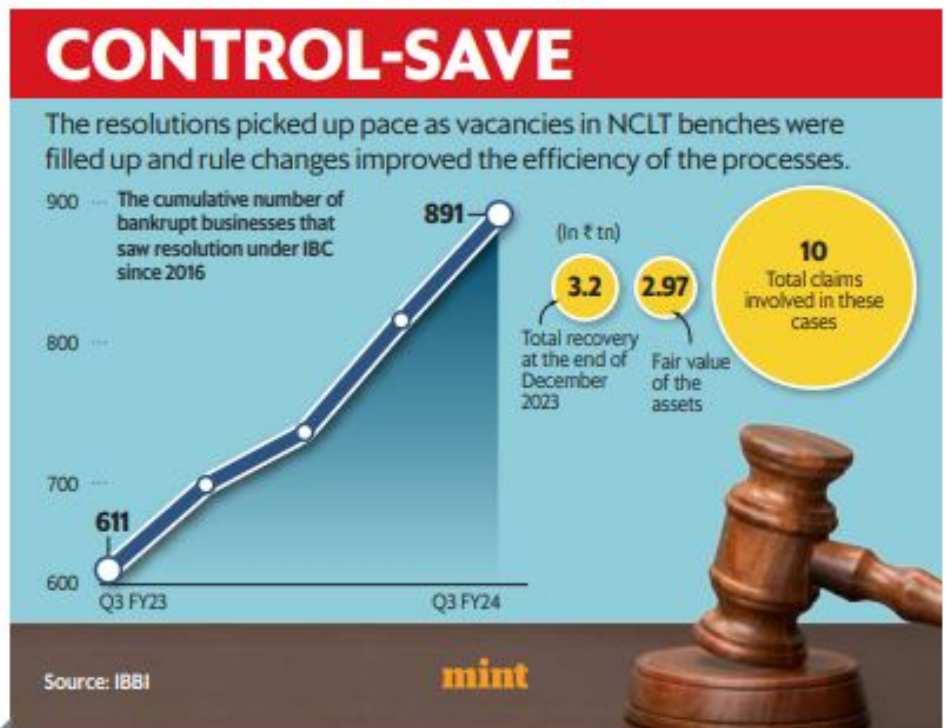
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RESCUE ACT

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A SHARP rise from 185 plans approved in all of FY23

QUICK resolution will enable a fresh cycle of private investments

SARVESH KUMAR SHARMA/MINT

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Panjiar said it is also important to address doubts about

the definition of secured creditors. In the Gujarat state tax officer vs Rainbow Papers Ltd case, the Supreme Court in September 2022 interpreted the definition of 'secured creditor' to hold that any government or governmental authority shall be a secured creditor as the charge created by a statutory law can be considered as a 'security interest'.

In January last year, the corporate affairs ministry captured the essence of 'security interest' in a discussion paper as the result of a consensual transaction between parties and not any interest created through mere operation of a statute.

"A clear legislative intent is required towards clearing these doubts. If the law is tentative on such a key matter, it would not evoke confidence enough to get the requisite resolution applicants to come and take over a sick company," said Panjiar.

Experts said banks should exercise caution when resorting to IBC, as its primary purpose should not be misconstrued as a mere debt recovery mechanism.