

From Chairperson's Desk

Beyond Recovery

In the realm of economic reforms, the Insolvency and Bankruptcy Code, 2016 (IBC/Code) has emerged as a transformative force in addressing insolvency and bankruptcy matters across a spectrum of entities. The IBC has remarkably altered how distressed and defaulting businesses are handled by their stakeholders. The Preamble to the Code emphasises its purpose as timely corporate reorganisation and insolvency resolution, with the goal of maximizing asset value. Unlike traditional recovery-oriented tools, IBC adopts a resolution-oriented approach i.e., it allows a firm to continue as a going concern, despite the default. By focusing on the revival and continuity of financially distressed entities, the IBC seeks to preserve jobs, protect investments, and maintain the operational viability of such businesses. However, the outcomes of IBC are evaluated on the basis of recovery to the creditors as a result of resolution process.

The data as on September, 2023 indicates that the creditors have realised ₹ 3.16 lakh crore under the resolution plans approved under the Code. In addition, more than 26000 applications having underlying default of ₹ 9.33 lakh crore have been withdrawn before their admission to the resolution process. This data primarily reflects the outcomes in terms of financial recovery. It is essential to recognize that the success of resolution goes beyond these recovery figures. In an attempt to measure the achievements of resolution process under the IBC, the Indian Institute of Management, Ahmedabad (IIM Ahmedabad) has done a study wherein the functioning of firms that have undergone resolution under the Code, has been reviewed. The Report looks at the performance of the firms both before and after the resolution process, to understand if the firms have been able to find their feet in the market. The Report also compares the performance of the resolved firms against their peers by sector and size.

Some of the key findings in the Report are as under:

- Average sales have shown an increase of 76% in three years since resolution. While the net margins continue to remain negative, the resolved firms have operationally broken even in the post-resolution period, which is a significant improvement from the pre-resolution period.
- There is around 50% increase in the average employee expenses in the three years post-resolution—indicating a higher employment intensity in the resolved firms (listed) in the post-resolution period. The total employment across firms have also shown a substantial increase in the post-resolution period.
- The trends indicate a significant increase of around 50% in the average total assets of resolved firms post resolution.

This is coupled with 130% increase in the CAPEX, which indicate a build-up of tangible assets in the balance sheet of these firms in the post-resolution period.

- The Report further finds that there is convergence in the profitability ratios of the resolved firms with the benchmark averages in the post-resolution period.
- The trends in the market capitalization of listed resolved firms indicate a significant revival in the average market valuations in the post-resolution period, which is expected given the growth opportunities that will accrue to these firms post the resolution with the creditors. A similar trend is seen for the aggregate market valuation of all the resolved firms which has increased from around ₹ 2 lakh crore to ₹ 6 lakh crore in the post-resolution phase. Overall, the results suggest that the market has priced and acknowledged the potential of these firms in the post-resolution period.
- Liquidity has improved in the post-resolution period by about 80%. The trends indicate a significant increase in the liquidity of the resolved firms in the post-resolution period. For instance, the current assets to current liability has improved from 1.01 in the year of bankruptcy to 1.83 in the third year post-resolution.

The IIM Ahmedabad reports that overall the resolved firms that went through the resolution process under the Code have significantly improved their performance in the post-resolution period compared to the period prior to their insolvency. Specifically, these firms' profitability, liquidity, activity, and turnover ratios have improved during the post-resolution period. These findings are further reinforced when their performance is compared with their performing peers from the same industry and size decile. Furthermore, a propensity score-matched analysis indicates that the resolved firms have reduced the wedge with the comparable cohort of firms in the post-resolution period, especially in the profitability metrics.

The Report of IIM Ahmedabad is a testament to the fact that the Code has been able to resolve distress and achieve much beyond recovery, benefiting the overall economy. The Report also validates the vision behind prioritizing financial creditors over the rights of the Central and State Government, that it would ultimately boost the availability of financing, lower capital costs, foster entrepreneurship, and accelerate economic growth thus yielding better gains for Government in longer run. As the IBC continues to evolve, it holds the potential to redefine corporate reorganization and serve as a key driver for availability of credit and promoting entrepreneurship in the country.

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