

India's Insolvency and Bankruptcy Code (IBC)

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India's Insolvency and Bankruptcy Code (IBC): Eight Years of Impact and Challenges

Introduction

Enacted in **2016**, the **Insolvency and Bankruptcy Code (IBC)** marked a significant reform in India's approach to corporate debt resolution. It aimed to streamline the fragmented legal framework, ensure **time-bound recovery**, reverse the borrower-friendly regime, and strengthen **credit discipline**. After eight years, the IBC has shown tangible successes but also faces critical implementation challenges.

Pre-IBC Scenario

Prior to 2016, India's insolvency framework was fragmented across laws like **SARFAESI**, **DRTs**, and **Company Law Board**, leading to **delayed litigation** and **low recovery rates**. The IBC consolidated these into a single mechanism under the **NCLT**, targeting resolution within **330 days**.

Key Achievements of the IBC

- **Recovery and Resolutions:**

As of **March 2025**, the IBC helped resolve **1,194 companies**, enabling creditors to recover **₹3.89 lakh crore**, with a **32.8% recovery rate**.

- **Dominant Recovery Tool:**

It contributed **48% of total bank recoveries in FY 2023-24**, outperforming SARFAESI (32%), DRTs (17%), and Lok Adalats (3%).

- **Asset Value Realisation:**

Resolution plans fetched **93.41% of fair value** and **170% of liquidation value**, indicating better outcomes.

- **Deterrent Impact:**

Around **30,310 cases**, worth **₹13.78 lakh crore**, were settled before admission—reflecting improved borrower behaviour.

- **Improved Credit Discipline:**

Gross NPAs fell from **11.2% (March 2018)** to **2.8% (March 2024)**. The IBC also helped improve credit terms and corporate governance.

Structural Strengths

- **Focus on Resolution:**

Prioritizes **reviving distressed firms** over liquidation, preserving jobs and economic value.

- **Creditor-Driven Mechanism:**

The **Committee of Creditors (CoC)** makes key decisions, shifting power from defaulters to lenders.

- **Boost in Out-of-Court Settlements:**

The credible threat of insolvency encourages early settlement, reducing judicial burden.

Persistent Challenges

- **Judicial Delays:**

Over **78% of ongoing cases** exceed the 270-day deadline due to **NCLT backlogs**, affecting timely resolution.

- **Legal Uncertainty:**

The **Bhushan Power and Steel** verdict (SC invalidating an approved plan) has raised concerns over post-resolution finality and investor confidence.

- **High Haircuts:**

Despite higher recoveries, average **haircuts remain around 67%**, requiring better valuation and bidding processes.

- **Adapting to New Economy:**

The framework still lacks clarity on **IP-heavy firms, startups, and digital businesses**, highlighting the need for updated norms.

Way Forward

To enhance the IBC's effectiveness:

- Expand and digitize **NCLT infrastructure**.
- Safeguard **commercial decisions** from excessive judicial intervention.
- Promote **pre-pack insolvency** for MSMEs and fast-track resolutions.
- Codify rules for **tech, IP, and employee dues** to match changing economic models.

Conclusion

The IBC has transformed India's insolvency framework by instilling **discipline**, enabling better recoveries, and becoming a credible resolution tool. However, to remain relevant and impactful, it must evolve through **institutional strengthening, legal clarity, and sector-specific reforms**, ensuring it supports India's ambition of becoming a **\$5 trillion economy**.

