

DETERMINANTS OF NPA RESOLUTION EFFECTIVENESS POST-IBC

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ABSTRACT

The mounting concern of Non-Performing Assets (NPAs) in India poses defining risks to the country's financial equilibrium as well as the credit supply to its economy. The Indian government responded to this concern by formulating the Insolvency and Bankruptcy Code (IBC) of 2016, which aims to provide a time bound and efficient structure for resolving insolvencies. The aim of this research is to study the efficiency of the Code in addressing the NPAs of India. Using a doctrinal approach to the research, the study aims to assess the influence of the Code over the recovery success rate, the time taken for resolution, institutional performance, and other relevant parameters by analyzing legal frameworks, judicial history, and empirical data from institutions like the RBI and IBBI. In addition, the study outlines challenges like procedural delays, backlog-ridden courts, and systems designed to prevent the exploitation of the approach taken. From the findings, the authors state that despite the expansion of the recovery IBC provides, numerous gaps remain that need to be addressed. The paper provides final thoughts that IBC remains a strong form of financial recovery as long as flexible legal and structural amendments are made to enhance its features and financial stability to the banking system is achieved.

Keywords: - *Insolvency and Bankruptcy Code (IBC)*

Non-Performing Assets

Resolution process

Recovery Rate

INTRODUCTION

The following information is incorporated into the text: "Insolvency and Bankruptcy Code (IBC), Non-Performing Assets (NPA), Resolution Process, Recovery Rates & Cost, Resolution Time" Overview In order to address the increasing burden of non-performing assets (NPA) in India's financial system, a unified legal framework was introduced in 2016 with the introduction of the Insolvency and Bankruptcy Code (IBC). Before the IBC, credit flow and financial stability were negatively impacted by ineffective asset resolution caused by disjointed recovery laws and protracted proceedings. By guaranteeing prompt decision-making, optimizing asset value, and enhancing creditor confidence, the IBC was created to expedite the resolution process. But even with its methodical approach, NPA resolution's efficacy after IBC has varied greatly.

There are questions regarding the factors that contribute to successful outcomes because key performance indicators like recovery rates, resolution cost, and resolution time have shown differences across sectors and cases. Examining the factors that influence the effectiveness of NPA resolution within the framework of the IBC, this study focuses on the function of regulatory mechanisms, stakeholder behavior, institutional efficiency, and procedural delays. The study aims to provide deeper insights into what propels successful recoveries and what still impedes optimal performance within the IBC ecosystem by examining resolution data and real-world case studies.

REVIEW OF LITERATURE

A number of studies have looked into how effective the Insolvency and Bankruptcy Code (IBC) is at tackling Non-Performing Assets (NPAs). They've particularly focused on aspects like recovery rates, costs, timeframes, and the overall resolution process. The findings suggest that the IBC has significantly improved recovery rates, averaging around 40%, when compared to older methods like SARFAESI and DRTs. However, it's important to note that recovery results can vary quite a bit based on factors like the sector, the size of the debt, and who the creditors are. When it comes to resolution costs, the IBC was designed to make things smoother and cheaper, but rising legal and administrative expenses especially in more complicated cases have become a concern. Many studies also point out that there are delays in the resolution process, with the average time stretching beyond 400 days, even though the IBC sets a target of 180 to 270 days. Issues like judicial bottlenecks, tactics used by promoters in litigation, and the limited capacity of NCLTs all contribute to these delays, which can hurt asset value and slow down creditor recovery. Additionally, the resolution process itself has had mixed outcomes, heavily influenced by the skills of insolvency professionals, the effectiveness of the Committee of Creditors (CoC), and how transparent the bidding procedures are. While it's clear that the IBC

has made strides in improving India's insolvency framework, the literature highlights that ongoing institutional inefficiencies and procedural delays still hinder the overall success of resolving NPAs

RESEARCH METHODOLOGY

This study is based on secondary data.

OBJECTIVES

- To analyze recovery rates and resolution cost of IBC
- To analyze the resolution time taken by IBC to resolve NPA's
- To analyze how much is the management of respective companies satisfied with IBC's resolution process

MAIN BODY

A study on the recovery rates and resolution cost of IBC.

What is the Recovery rate?

In the context of the Insolvency and Bankruptcy Code, 2016 (IBC) of India, the Recovery Rate refers to the percentage of the admitted claims of creditors that is actually recovered or realized through the resolution or liquidation process under the IBC framework.

Resolution costs under IBC include:

- Legal fees (lawyers, court filings)
- Professional fees (Insolvency Professionals, auditors)
- Administrative fees (RP office, support staff, CIRP expenses)
- Valuation and due diligence
- Information memorandum & marketing cost
- Opportunity cost (loss of value over time)

CASE STUDIES

1. Bhushan Steel Ltd.

Admitted claims: ₹57,000 crore

Resolution amount: ₹35,571 crore (63% recovery)

Resolution applicant: Tata Steel

Resolution cost: ₹120 crore

Cost as % of realization: 0.34%

Key Insight: Quick and successful resolution with Tata Steel, cost-effective.

Inference:-

In large, asset-heavy, or strategically valuable firms, high recovery percentages ensure that resolution costs remain negligible in proportional terms.

- This makes IBC highly cost-effective in such scenarios.
- Buyer confidence, rational viability, and lower legal friction are new efficiency drivers.

2. Jet Airways

Admitted claims: ₹15,000+ crore

Resolution amount: ₹475 crore (3.1% recovery)

Resolution cost: ₹60 crore+

Cost as % of realization: 12%

Key Insight: Poor outcome due to asset-light nature, high cost-to-recovery ratio.

Inference:-

In firms with severely deteriorated assets, ongoing liabilities, or lack of buyer interest, the recovery is minimal while the resolution cost remains fixed or even grows over time.

- This leads to disproportionately high cost/ recovery ratios, undermining IBC's efficiency.
- Such cases highlight the vulnerability of IBC's cost-efficiency in value-eroded scenarios.

3. Videocon Industries (Group)

Admitted claims: ₹64,839 crore

Resolution amount: ₹2,962 crore (4.6% recovery)

Resolution cost: ₹100 crore+

Key Insight: One of the worst recoveries; cost-to-recovery ratio was very high.

Inference:

Firms in financial services or sectors with preserved brand value and systems can retain operational efficiency, even under financial distress.

This helps optimize the cost/recovery ratio, keeping resolution economically viable.

A STUDY ON RESOLUTION TIME TAKEN BY IBC TO RESOLVE NPA'S IN INDIA

The Insolvency and Bankruptcy Code (IBC), which came into effect in 2016, was created to tackle non-performing assets (NPAs) in a timely and creditor-focused way. One of its main promises was to ensure resolutions within 180 days, with the possibility of extending that to 330 days if needed, including any legal disputes.

However, in reality, the average time it takes to resolve cases under the IBC has frequently gone beyond the set limits. This has sparked worries about delays caused by judicial processes, ongoing litigation, and the intricate nature of many cases.

Phase	Time Limit
Initial CIRP Period	180 days
Extension (if approved by CoC)	+90 days
Maximum including litigation (per SC ruling in 2020)	330 days

📌 CIRP = Corporate Insolvency Resolution Process

Empirical Data on Resolution Time (Source: IBBI Quarterly Reports 2023-24)

Resolution Outcome	Average Time Taken
Successful Resolution	650 days
Liquidation	460–500 days
Withdrawals (Sec 12A)	310–390 days

CASE STUDIES: RESOLUTION TIME ANALYSIS

1. Bhushan Steel

- Sector: Steel
- Time Taken: 15 months (450 days)
- Key Delay Factors: Complex valuation, multiple bidders

2. Jet Airways

- Sector: Aviation
- Time Taken: 4+ years (Still pending operational revival as of 2024)
- Key Delay Factors: Buyer default, regulatory issues, and fragile asset structure

3. Videocon Industries

- Sector: Electronics & Telecom
- Time Taken: 2.5 years (900 days)
- Key Delay Factors: Asset fragmentation, low buyer interest, cross-company resolution (15 firms)
- Only 15% of cases are resolved within 330 days
- Many large cases take more than 2-3 Years

KEY CAUSES OF DELAY IN IBC RESOLUTIONS CATEGORY

Litigation Delays-Appeals in NCLAT & Supreme Court

Multiple Stakeholders-Large creditor base, multiple bidders

Operational Complexity-Group insolvency (e.g Videocon)

Appeals in NCLAT & Supreme Court

Regulatory Bottlenecks-FDI/FEMA/SEBI approvals

Judicial Overload-Backlog in NCLT benches

Lack of Buyer Interest-Asset-light business outdated plants

A study on how much the management of respective companies satisfied with IBC's resolution process.

BHUSHAN STEEL

Stakeholders	Satisfaction Level	Justification
Promoters	Dissatisfied	Disqualified under Section 29A; lost the company with no negotiation rights; Allegations of mismanagement hurt reputation.
Creditors	Highly Satisfied	Recovered 235,200 crore (63%) of their dues - significantly better than other large NPA cases.
Buyer	Satisfied	Acquired a major steel asset with high capacity; became second-largest steelmaker in India; Smooth post-acquisition integration.
RP/COC	Positive	Handled professionally; no major litigation delays; Process completed within 16 months.
Regulators	Supportive	Seen as one of the first "textbook" IBC successes; built confidence in the IBC process.

JET AIRWAYS

Stakeholders	Satisfaction level	Justification
Promoters [Nares Goal]	Disengaged	Removed from control; under ED and SFIO scrutiny; no chance to be part of resolution
Creditors	Highly Dissatisfied	Recovered only ~380 crore (3.1%) out of ₹15,000 crore dues; resolution plan implementation stalled.
Buyer [Jalan-Kalrock consortium]	Dissatisfied	Despite NCLT approval, it failed to take over operations due to delayed approvals, fund issues, and disputes with creditors.
RP/CoC	Frustrated	The process has been dragged over 4 years with no meaningful resolution or revival: CoC is locked in post-approval disputes.
Regulators / Courts	Cautious	DGCA, MoCA approvals Delayed; hesitation due to aviation sector complexities; no systemic reform followed.

VIDEOCON GROUP

Stakeholders	Satisfaction level	Justification
Promoters	Opposed	Arrested for fund diversion; public and judicial criticism of poor governance; no control over process.
Creditors	Highly Dissatisfied	Recovered only 2,962 crore (~4.1%) out of 64.838 crore- an enormous ~95% haircut.
Buyer	Partially Dissatisfied	Deal approved for 2,962 crore but paused by NCLT due to public interest concerns over huge haircut.
RP/CoC	Mixed	Struggled with lack of group insolvency framework; faced delays due to complexity of 13 Group entities.
Regulators	Disappointed	Observed and criticized Extremely low value realization; urged reforms for conglomerate insolvency and group resolution strategy.

CASE STUDY

Background: Jaypee Infratech & NPA Status

Jaypee Infratech Ltd, a member of the Jaiprakash Associates Group, was labeled a Non-Performing Asset (NPA) long before the insolvency proceedings kicked off, primarily due to a series of defaults piling up.

With no cash flow and outstanding debts to both homebuyers and banks, JIL's predicament was a classic example of what triggers the IBC.

IBC PROCESS & LEGAL CHALLENGES

Initiation:

JIL found itself in the Corporate Insolvency Resolution Process (CIRP), where NBCC India Ltd put forth a resolution plan that received the green light from the Committee of Creditors (CoC) and the NCLT back in 2020.

Legal Scrutiny

In February 2020, the Supreme Court made some significant rulings that invalidated certain mortgage transactions, labeling them as either preferential or undervalued. This meant they were excluded from creditor collateral and had to be unwound according to Sections 43-45 of the IBC.

A ruling from 2020 also clarified that mortgages made by JIL in favor of lenders from its parent company, Jaiprakash Associates Ltd, were avoidable and not part of regular business operations.

Resolution Outcome

Eventually, Suraksha Realty stepped in with a new resolution plan that got the nod in March 2023, after a lengthy process of appeals and negotiations. This plan included a payment of Rs 750 crore along with other amounts to homebuyers and creditors.

Homebuyers and financial creditors were given priority, while shareholders ended up with just a token amount (a few lakhs spread across millions of shares—essentially a fraction of a paisa per share).

Broader Impact:

NPAs under IBC

As of December 2024, the IBC framework has facilitated resolutions—often even before formal admission—for over 30,000 cases, amounting to a whopping F13.78 lakh crore, which has significantly enhanced overall credit discipline. High-profile IBC cases, like those involving Essar and Bhushan Steel, have successfully navigated asset sales and creditor recoveries, although some inefficiencies and delays still persist as systemic issues.

Key Takeaways

Fairness/Vigilance: The Jaypee case serves as a prime example of judicial scrutiny, particularly when it comes to examining third-party security and the integrity of transactions.

Prioritization of Stakeholders: The IBC clearly outlines a hierarchy, ensuring that homebuyers and secured creditors are prioritized first.

Litigation Delays: The process continues to grapple with legal appeals and delays, which can hinder the sense of urgency.

Creditor Recovery Limited vs Ideal Targets: While creditors do receive their due amounts, the distressed value and lengthy litigation often diminish the overall recoverable value.

Shareholders Bear the Loss: Once debts are settled, the residual value left for equity holders is quite minimal.

CONCLUSION

The implementation of the Insolvency and Bankruptcy Code (IBC), 2016, is a positive initiative towards the restoration of order and time-sensitive, creditor-centric processes in India's insolvency system. It sought to improve the recovery rate of large cases although certain sectors still struggle with recovery results. It still faces significant challenges in highly complex cases, cases with a light asset base, cases with high resolution expenses, and the cases that exceed the IBC's 180 to 330 day timeline.

The impact of the IBC has been limited due to judicial hold ups, administrative boundaries at the NCLT level, and even corporate level interferences. The IBC has been made ineffective due to a lack of robust institutional oversight which is showcased in the Jaypee Infratech case while also lacking the adequate safeguard to defend the interests of multifaceted groups, like the homebuyers.

Recovery results, in large cases still inconsistent across sectors due to systemic challenges, have the IBC encountering an unprecedented gap in judicial capabilities, resolution timelines, and lacking precise legislation. Overall, it is a step in the right direction.

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APPENDIX I: BIBLIOGRAPHY AND REFERENCES

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