10 Years of IBC

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17 IMPACT OF IBC ON POST RESOLUTION FIRM OUTCOMES AND STATE CAPACITY

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ABOUT THE POST RESOLUTION STUDIES OF 2023 AND 2026

Assessments of Insolvency and Bankruptcy Code, 2016 (IBC/Code) outcomes have, mainly focused on creditor realisations. While that is a good starting point for assessing the effectiveness of IBC, we need to keep in mind that the goal of the legislation was always to return assets to a productive state. The firm houses those assets, whether as machinery, buildings, know-how or intellectual property. To examine firm-level outcomes, the Insolvency and Bankruptcy Board of India (IBBI) commissioned IIM Ahmedabad to study the performance of resolved firms post-resolution. The first edition of the study (August 2023) tracked resolved firms three years post-resolution (T+3). The updated report (March 2026) extends the analysis to five years (T+5). This article draws from both the studies to provide an understanding of the impact of successful resolution on firm health post-resolution.

The author's goal was to understand if resolved firms contribute to the economy through employment, investment, and efficient use of their assets.

The resolved firms were identified using the IBBI database. Initially 1194 firms were identified. Exclusions were made due to non-availability of data, firms that were financial intermediaries, and firms with missing or zero-sales data. This left us with data from 844 firms for the T+5 study. Financial data was sourced from the Ministry of Corporate Affairs from FY 2013 to FY 2024.

The author also compared the performance of resolved firms with similarly sized firms in the same sector or industry (i.e. peers). Data on peer firms was obtained from the CMIE Prowess database, covering 5,085 firms over the same period.

Each resolved firm is tracked from the point it entered the insolvency process, rather than by the calendar year in which these events occurred. This allows firms that went through the process at different points in time to be meaningfully compared with each other. The analysis also accounts for economy-wide conditions, such as the COVID-19 pandemic.

PERFORMANCE OF RESOLVED FIRMS

Overall, the results indicate a significant improvement in the performance of resolved firms in the post-resolution period. The 2026 findings at T+5 are, in most cases, stronger than those reported at T+3 in the 2023 study. When the bankruptcy process was initiated, the average resolved firm had an operating margin of -26% and an asset turnover ratio (net sales to assets ratio) of 0.37, indicating that these firms were both loss-making and generating limited revenue relative to their asset base (T+5).

Table 1: Key Performance Metrics — Resolved Firms

Indicator	T+3 (2023)	T+5 (2026)
Operating Margin	+4%	+8%
Sales Growth	+76%	+89%
CAPEX Growth	+130%	+106%
Asset Turnover	+53%	+131%
Employee Expenses	+50%	+71.91%

Sources: (IIMA, 2023, 2026)

More data is available in case of listed firms amongst the resolved firms. The analysis showed that the total market capitalisation in case of listed firms increased from INR 2.8 lakh crore to INR 9 lakh crore (T+5, 83 firms).

Overall, the operating margins have seen an improvement from -26% at the time of bankruptcy (T+5), though the net margins (ratio of net profit to total sales) continue to remain negative. Convergence with the peers is seen in the case of both net margins and operating margins (T+5). The authorwill have to wait longer to see how the metrics for ratios such as Return on Capital Employed (ROCE) and CAPEX ratio pan out.

Liquidity & Leverage

Liquidity as measured by ratio of current assets to current liabilities, has shown a significant improvement in the post-resolution period. The current ratio improved from 1.01 at the time of bankruptcy to 2.09 at T+5, an improvement of 106%. The 2023 study had reported a current ratio of 1.83 at T+3, indicating that the improvement has continued over time. The liquidity ratios of resolved firms at T+5 are close to the averages observed for industry and size-matched performing firms, suggesting a recovery in the operational position of these firms.

The trends in leverage ratios also indicate an improvement in the post-resolution period. The interest coverage ratio (i.e ability to service interest payments) has recovered to near pre-bankruptcy levels. Resolved firms show higher leverage relative to its peers in the post-resolution period. This likely reflects the debt raised to fund the capital expenditure and working capital, rather than a deterioration in financial health.

Capital expenditure increased by 106% in the T+5 study, indicating a build-up of productive assets in the balance sheets of resolved firms. The asset turnover ratio increased from 0.37 at the time of resolution to 0.87 at T+5. Activity ratios, which measure the efficiency of working capital management, also show an improvement in the post-resolution period. Inventory days, receivables days, and payables days have all declined, indicating improved management of the production cycle, collections, and supplier payments under new ownership.

Recovery Rates and Resolution Costs

The T+5 study showed an average time value adjusted recovery rate of 33.79% compared to 30.07% in the T+3 study. On average, financial creditors recovered 38.79% of admitted claims, compared to 35% reported in the 2023 study. Operational creditors recovered an average of 23.29%, compared to 21.89% previously. These values have been adjusted for the opportunity cost of capital at a 7% discount rate, approximating the 10-year Government of India treasury yield.

Recently, the Standing Committee on Finance (2025-26) noted a recovery rate of 32.8% against total admitted claims and 170% against liquidation value under the IBC.

Recovery rates vary across industries. The highest recovery rates for both financial and operational creditors are observed in the Hotels and Restaurants industry. The lowest recovery rates are

observed in the Electricity, Gas and Water Supply industry (T+3) and Mining and Quarrying (T+5). Both the studies find that the highest recovery rates are observed in asset-light industries, holding substantial intangible assets. The extraction of value from intangible assets by the creditors, and their prospective monetisation by applicants indicates that going-concern value may be better realised through a competitive auction process.

Analysing the cost of resolution as affected by the time taken to resolve, the analysis shows that resolution costs rise disproportionately with delays. Further, time is only one of the factors affecting the cost of resolution. Other key factors are case complexity, industry, and firm size. For instance, resolution expenses in the Wholesale and Retail Trade sector could amount to nearly half of the realisable amount, in part due to extended timelines. Therefore, time bound resolution is necessary to keep the recovery rates high. Delays in the process impose a cost that is ultimately borne by creditors.

Survey and Interview Findings

The T+3 study was also accompanied by a survey of 62 resolved firms, along with focused interviews with management representatives. The results showed that approximately 3 out of 4 respondents were satisfied by the firm productivity, only half were satisfied by the financial position of the firm.

Access to financing was identified as a continuing problem in the post-resolution period. A third of the surveyed firms were able to obtain financing from banks after resolution. However, only 40% of those firms indicated that the terms were reasonable and acceptable.

The respondents indicated that they were overall satisfied in their interaction with the NCLT. The delays arising from appeals were flagged as being a cause of friction.

Respondents also noted difficulties faced in obtaining clearances from the Income Tax Department, Customs Department, and the Reserve Bank of India. As regards, the Resolution Professionals (RPs), during the focus interview, the respondents stated that while the overall working of RPs was satisfactory, there was scope for improvement in business and managerial skills. Additional training was suggested in business management, given that they are required to oversee firm operations during the interim period, and usually do not have such a background.

NCLT: A LOAD BEARING PILLAR OF THE ECONOMY

The recent observation of the Supreme Court in the case of *AVJ Heightss Apartment Owners Association v. IIFL Finance Limited & Anr.* noted the delays in approval of resolution plans. The observations led to the *suo moto* taking up of the issue of manpower shortage and infrastructure gaps at NCLT. While news reports usually point out the increasing time to resolution, and the cost of delays, the observations by Bench of Justice J.B. Pardiwala and Justice K.V. Viswanathan show how both the problems are a symptom of the disease. These concerns are not new, and have been raised numerous times before.

The coming into force of the IBC, was also closely accompanied by the reorganisations of Tribunals. The NCLT was notified in June, 2016 under the Companies Act, 2013. Shortly afterwards, the Finance Act, 2017 reorganised the working of the Tribunals. The scope of both NCLT and NCLAT stood significantly expanded and altered.

The reorganisation and the rules issued thereunder were challenged before the Supreme Court. One of the issues raised was the necessity of undertaking a Judicial Impact Assessment. The Supreme Court directed that such an exercise should be undertaken and sufficient resources made available to the Tribunals (*see Issue V, para. 189)*.

The Standing Committee on Finance (2024-25) flagged the whole gamut of challenges (severe

manpower shortage, reliance on contractual staff, use of technology, infrastructure issues etc). Similar issues had been raised by the NCLT Bar association before the Delhi High Court, via a writ petition in 2018. Last year the NCLT Bar Association highlighted the water leakage in 3 court rooms, which had led to the floor being designated as 'unsafe'. The courts then commenced functioning on a half-day basis (letter dated 4 September 2025).

Fundamentally, this is an issue of 'state capacity. A justice delivery system, spreads the gains or losses widely, while the 'State' bears the costs. So while the IBC has been 10 years in the making, so has the slow but steady spreading of cracks along this load bearing pillar of our economy. The state muscle needed to ensure 'maintenance' is different from the muscle needed to 'create'. The maintenance muscle is tested every day, challenged by all stakeholders.

In the case of NCLT, the Supreme Court noted that the delay in resolutions awaiting approval before the NCLT ranged from 48 days to 738 days (approx. 2 months to 2 years). Firms, their lenders, and future resolution applicant (buyers) are all calculating the margins they have to maintain in order to absorb the delays. The creditors incorporate these delays by increasing interest rate; the buyers by reducing the offer size as machines are out of commission for longer; and firms by reducing credit uptake.

CONCLUSION

Continuous monitoring of the functioning of the Code and its institutions should become a regular and institutionalized exercise. Across the world, periodic surveys and impact assessments of laws, courts, and tribunals are undertaken annually to evaluate their effectiveness, identify operational bottlenecks, and assess institutional capacity. Such reviews help policymakers and stakeholders understand whether the objectives of the legal framework are being achieved and what reforms may be necessary.

In this regard, the IBBI, along with the Ministry of Corporate Affairs, has already taken initial steps by examining post-resolution outcomes of firms in two separate studies, and many other studies. The studies on post resolution outcomes show significant achievements on firms that have come out of the resolution process. Be that as it may, there remains significant scope for developing a more comprehensive and systematic assessment mechanism to evaluate the overall health and performance of the IBC framework on an annual, or at least biennial, basis. Regular publication of such assessments would provide valuable insights to all stakeholders in the insolvency ecosystem, enable evidence-based policy corrections, and strengthen confidence in the insolvency regime.

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