

FY21 to witness significantly lower realisations under IBC, says ICRA

OUR BUREAU

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Financial creditors could realise about ₹60,000 crore to ₹70,000 crore in FY21 through the Insolvency and Bankruptcy Code (IBC), a significant decline compared to the ₹1-lakh crore realised in FY20, according to credit rating agency ICRA.

The outbreak of Covid-19 pandemic and the suspension of new proceedings under IBC is expected to result in significantly lower realisations by 30 to 40 per cent for financial creditors in FY21 and pose new challenges, the agency said.

ICRA expects the resolution of corporate insolvency resolution proceedings (CIRPs) to be impacted during FY21 due to a decline in the number of CIRPs yielding a resolution plan, as well as an increase in haircuts that lenders would have to

take. "The resolution amount will also be lower in FY21 as the previous year witnessed large-size non-performing assets successfully concluding the CIRPs.

"In the current fiscal, successful resolution of a large housing finance company is going to be the key determinant of the extent of amount the financial creditors would realise during the year," said the agency.

Proceedings suspended

The ratings agency further noted that realisations from resolution plans could further suffer in FY22 as fresh insolvency proceedings have been suspended for one-year period.

New insolvency proceedings initiated in FY22 are unlikely to get resolved in the same fiscal, given the typical



average time period seen for CIRPs to conclude with a resolution plan is quite high, it added.

Abhishek Dafria, Vice-President, ICRA, observed that the pandemic has thrown up new operational challenges for the various parties involved in a resolution process, resulting in limited cases yielding a resolution plan, especially in Q1 (April-June) FY21.

"In the current environment, the ongoing and even future CIRPs are likely to suffer from lower valuations and possible lesser interest from

bidders due to the uncertainty across many sectors. This, in turn, may result in creditors having to agree on higher haircuts," he said.

Dafria opined that the time period required for successfully concluding a CIRP would also increase, as in addition to the lock-down period, the creditors need to provide additional time to bidders for due diligence, or in case of unsatisfactory bid results, may have to go for extension of bid timelines or for further rounds of bidding.

ICRA said suspension of fresh insolvency proceedings for a period of one year will ensure relief for the companies that are severely impacted by the Covid-19 pandemic and are unable to meet payments to their creditors.

However, if the severity of the pandemic were to in-

crease, thus delaying economic revival, there could be a sudden surge in cases being referred under the IBC after the one-year period.

This will be detrimental to the resolution process, which is already facing challenges from over-burdened tribunals, it added.

The agency assessed that against the stipulated resolution period of 330 days, the average time taken for completion of the CIRPs yielding approval of resolution plan has been 415 days.

For cases ordered into liquidation, the average time taken in the CIRP process has been 309 days. After this, the average time taken for liquidation process has been around 1 to 2 years, thus substantially eroding the value of recovery as well as time value of money for the lenders, said ICRA.