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Impact of IBC on Indian Economy and Corporate Landscape

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Abstract

The Insolvency and Bankruptcy code established in 2016 brought a time bound and unified mechanism promoting entrepreneurship and aiming to improve the financial stability, by protecting creditors, promoting resolutions over liquidation through CIRP. IBC has shifted the market dynamics from debtors controlled to creditors controlled and has boosted the interest among foreign investors.However,through analysis this paper highlights the ongoing challenge and hardships faced by IBC.This paper empirically studies how IBC has impacted the indian economy and indian corporate landscape through EoBD,NPA reduction,Recovery rates,etc and by concentrating on alterations to insolvency resolution productivity and stakeholder outcomes.While IBC has drastically impacted indian economy ,there is an necessity of improving to ensure long-term stability and improvement.

Keywords: IBC, Indian Economy, Economic Growth, Insolvency

Introduction

The Insolvency and Bankruptcy Code which was enacted in 2016 represents a reformative economic legislation providing a unified and time bound mechanism for the resolutions of insolvency and bankruptcy for companies,partnership firms and individuals. Prior to when IBC was established India's insolvency regime was fragmented,involving many laws like the Sick Industrial Companies (Special Provisions) Act, 1985, and the Recovery of Debts Due to Banks and Financial Institutions (RDDBFI) Act, 1993 due to which there were procedural delays, increased costs, and poor recoveries for creditors. These efficiencies highlighted the urgent need for an insolvency process which was Pan India and effective.

The IBC was established with the main motive of consolidating and amending existing insolvency laws, maximizing the value of assets, promoting entrepreneurship, and ensuring the availability of credit while balancing the interests of all stakeholders.Many new institutions were established due to the code like Insolvency and Bankruptcy Board of India (IBBI), National Company Law Tribunal (NCLT), insolvency professionals, and information utilities with the aim of streamlining and expediting the resolution process.Due to the establishment of IBC the market dynamics shifted from debtors to creditors and introducing a market-driven, creditor-in-control approach.The IBC has increases the interest of investors by balancing their interest and maximisation of value of assets at every stage.

The Code outlines the steps in the Insolvency Resolution Process (IRP) for corporate debtors. Financial or operational creditors are allowed to start an IRP at the National Company Law Tribunal (NCLT), with claims put on hold for 180 days.The process must be finished within 180 days of application.An interim Insolvency Professional (IP) is appointed,which takes the control of company's assets and operations.The process and calls for submission of claims by other creditors are announced by NCLT.All financial creditors are members of the creditors's committee, with operational creditors being part if their aggregate dues are not less than 10% of the debt.The entire resolution process and management of the debtor is conducted by The Resolution Professional.The resolution plan is then submitted to the NCLT for final approval and implementation and if not approved the process of liquidation starts. In case the liquidations start,a liquidator is employed which is appointed to sell the corporate debtor's assets and distribute the proceeds among creditors, employees, and other stakeholders according to the priority set out in the Code's "waterfall mechanism." The aim of the IBC remains revival, but liquidation acts as the final recourse to maximize value recovery when resolution is not possible.

Literature Review

Dr. Lakshkaushik Dattatraya Puri (2023) highlights the broad economic impact of the IBC and its effect on the corporate reputation of India. The legislation has raised India's Ease of Doing Business (EoDB) ranking from 142nd (2015) to 63rd (2018), due to enhanced insolvency resolution processes. The IBC's timely framework, which has cut down resolution time from 4.3 years prior to the IBC to 1.7 years afterward, was acknowledged by The World Bank. Foreign Direct Investment (FDI) inflows rose from $36.5 billion (2015–16) to $74.4 billion (2019–20), reflecting heightened investor trust in India's revamped insolvency system.

Chandra Shekhar and Pallavi Rai (2023) highlight the effectiveness of the IBC in addressing distressed assets and achieving recovery rates. As of 2023, creditors retrieved ₹3.58 lakh crore via resolution strategies, attaining 162.79% of the liquidation value. Notable cases such as Bhushan Steel (Tata Steel acquisition) and Essar Steel (ArcelorMittal takeover) showcased the Code's capacity to rejuvenate struggling companies while maintaining employment. Nonetheless, the research highlights obstacles including lengthy judicial processes (average resolution duration: 701 days) and poor recovery rates in areas like electricity (22%) resulting from regulatory conflicts.

Dr. S. Pardhasaradhi and Mrs. P. Anitha (2022) examines the IBC's behavioral and strategic changes using nudge theory's framework, which shaped stakeholder conduct. The creditor-in-control model minimized promoter control, with promoter-driven solutions decreasing from 43% (2018) to 12% (2023). The Code brought fiscal discipline, deterring crony capitalism and promoting prudent borrowing. Operational creditors, who are now being recognized as financial creditors in real estate matters, experienced a recovery rate of 49% in cases resolved.

CA. Dr. Binoy Joy Kattadiyil & Prof. Dr. Bakhtiyor Anvarovich Islamov (2021) employed paired t-tests to confirm the macroeconomic effect of the IBC. Gross NPAs reduced from 11.2% (2018) to 8.5% (2020), whereas recovery rates under IBC (48%) were better than SARFAESI (32%) and DRTs (17%). FDI inflows were highly correlated with the implementation of the IBC, increasing by 10.7% after 2016. The research concluded that the restructuring tools of the IBC (e.g., mergers, pre-packs) yielded 183% of liquidation value in settled cases.

Methodology

The data used in this research article was compiled from a range of sources, including the internet and external sources like government statistics and organizational databases.

Empirical Analysis

Hypothesis: The implementation of IBC has drastically impacted India's economic stability and

corporate health by measurable improvements through reduced NPA's, rising recovery rates and number of resolved cases which resulted in strengthening the banking sector and distressed firms through a transparent, time-bound resolution process.

Pre IBC implementation, the gross NPA ratio has reached 11.2% in 2017-2018 for scheduled commercial banks which reflected systemic stress. In September 2024, this has decreased to 2.6% which is the lowest in 12 years.The IBC has played a role of dominant recovery chanel, and has accounted for 48% of all bank recoveries in FY 2023-24 which far ahead of SARFAESI (32%) and DRTs (17%).This steep fall in NPA's has freed up capital for productive lending, supported credit growth which has resulted in restoring profitability in banking sector.

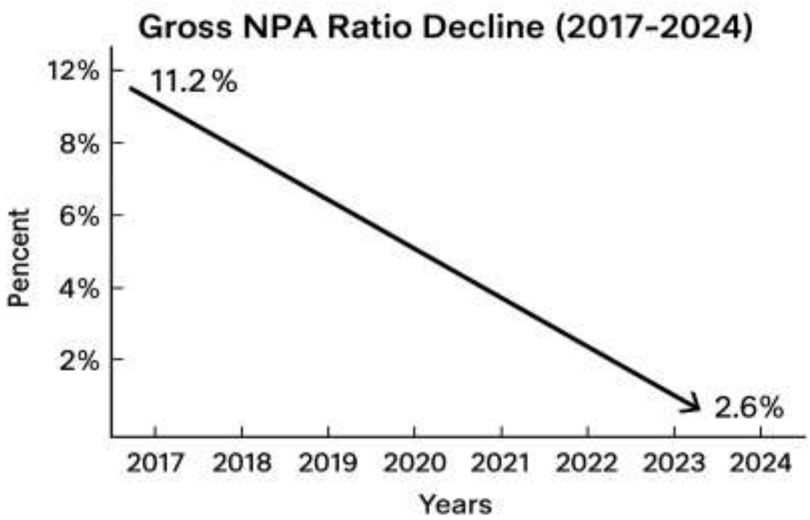
8175 Corporate Insolvency Resolution Processes (CIRPs) have been initiated as of December 2024.Out of these, 3,485 corporate debtors have been rescued which included 1119 via resolution plans while 2,707 have been referred for liquidation.In these 1119 resolved cases creditors realized ₹3.58 lakh crore which amounted to 162.79% of liquidation value and 87.58% of fair value.But on the downside the average time to resolution has been increased by 571 days which showcases the rising complexity and caseload at the NCLT.

Table 1: NPA Ratio and Recovery Rate Pre- and Post-IBC

Indicator	**Pre-IBC (2016–17)**	**Post-IBC (2023–24)**
Gross NPA Ratio	11.2%	2.6%
Recovery Rate (all channels)	10-22%	32-48%(IBC)

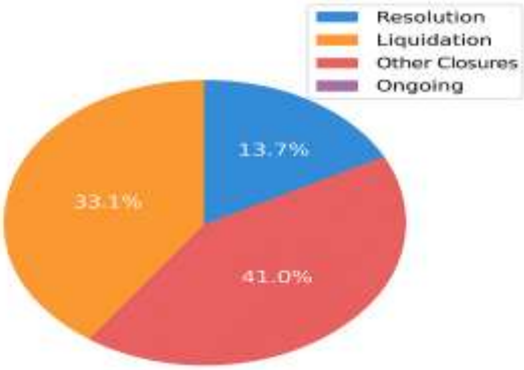
Sources: RBI, IBBI, PIB, Ashoka University

Graph 1: Gross NPA Ratio (%) Over Time



The NPA ratio has dropped from a peak of 11.2% before IBC to 2.6% in 2024, reflecting improved asset quality and bank stability.

Graph 2: CIRP Outcomes Distribution



Sources:PIB, IBBI, IIM Ahmedabad

While liquidation remains frequent, successful resolutions have delivered high value to creditors and preserved business continuity.

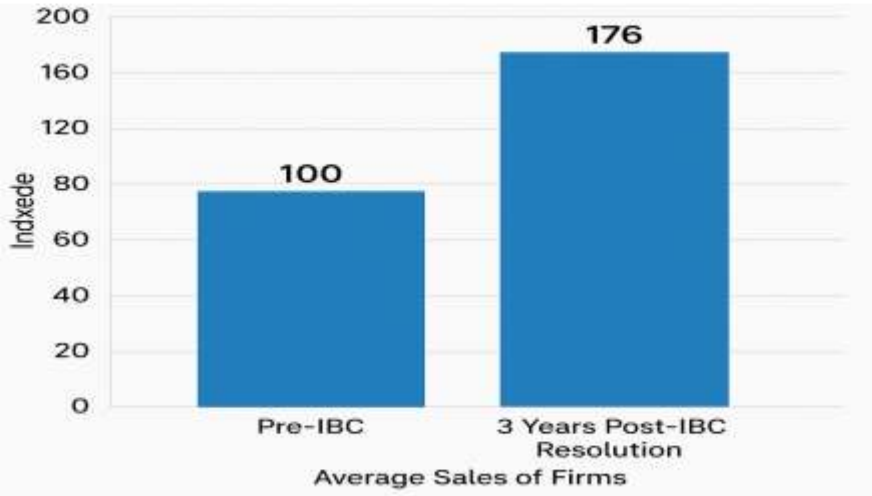
According to an IIM Ahmedabad study, it was found that on average, firms that were resolved under IBC saw a 76% increase in sales, a 50% rise in total assets, and a 50% growth in employee expenses within three years post-resolution.Furthermore operationally these firms broke even with operating margins improving from negative to +4% at T+3 years.

Table 2: Firm Performance Pre- and Post-IBC Resolution (Indexed)

Indicator	Pre-IBC	3 Years Post-Resolution	% Change
Average Sales	100	176	+76%
Total Assets	100	150	+50%
Employee Expenses	100	150	+50%

Source: IIM Ahmedabad, IBBI

Graph 3: Indexed Sales Growth Post-Resolution



Substantial operational revival and job preservation is shown through resolved firms.

FDI's have shown a remarkable rise since the implementation of IBC.Cumulative FDI inflows have crossed the $1 trillion mark till September 2024, with $40.7 billion acquired in the first nine months of FY 2024–25 with a 27% rise over the same period last year.This surge is due to India's reinforced legal and insolvency system, which has pacified international investors regarding effective exits and recovery of assets.Concurrently, India's ranking in the World Bank's Ease of Doing Business (EoDB) ranks has significantly improved, as India moved from 130th in 2016 to 63rd in 2020, and was placed amongst the top scorers in the "Resolving Insolvency" factor. These trends highlight how robust insolvency reforms and a competitive business environment have transformed India into a top destination for international investment and entrepreneurship.

Through case studies on Bhushan Steel Limited and Binani Cement Limited we would speculate the impact of IBC on India's corporate landscape.

Bhushan Steel, India's largest steelmaker, was admitted to CIRP in July 2017 because of unsustainable debt. Under CIRP, the resolution professional kept the operations as a going concern. Tata Steel bought Bhushan Steel for ₹35,200 crore, and creditors got more than 185% of liquidation value. Post resolution the company obtained a revenue of ₹21,536 crore and a net profit of ₹2,518 crore in FY 2021.The share price appreciated from ₹0.83 prior to resolution to ₹52.15 during March 2021, which showcases wealth creation and business revival. This case best illustrates the capability of the IBC to sustain jobs, rebuild supplier and lender confidence, and create national wealth.

Binani cement which was facing an operation shutdown and working capital shortages had entered CIRP with all operations stagnant.With the acquisition of UltraTech Cement, this resulted in 100% recovery for financial creditors which is rare under IBC.The case established a precedence for transparency and priority to creditors, ending intricate legal battles and proving that competitive bidding would unlock value. After the settlement, all the major solvency and profitability ratios improved, and the company resumed growth, making Binani Cement an IBC landmark success.

Conclusion

The data and case studies confirm the hypothesis that IBC has been revolutionary for the economic and corporate landscape of India. The IBC has reduced NPA's significantly, raised recovery rates, and revived the banking system, as supported by the sudden fall in gross NPAs and the recovery in creditor confidence. It has facilitated the rescue of thousands of businesses, saved jobs, and brought operational turnaround across sectors. Cases of high-value resolutions like Bhushan Steel and Binani Cement illustrate the IBC's capability to deliver recoveries significantly higher than liquidation values and maintain business continuity and value maximization for stakeholders.

Though there are still challenges-hold-ups due to NCLT backlogs and still a high percentage of cases concluding in liquidation-the net effect is unequivocally beneficial. The Code's time-bound, creditor-centric methodology and emphasis on resolution rather than liquidation has not only improved resource optimization but also brought about a shift in culture and attitudes among stakeholders towards more fiscal prudence and entrepreneurship.

Thus, the empirical evidence validates that the hypothesis was true: the IBC has essentially improved insolvency resolution effectiveness, and the financial system, which resulted in making India a more inviting and robust destination for investment. But ongoing reforms and capacity development will be required to consolidate and build upon these gains in the coming years.

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