From CIRP To PPIRP: Has India's Insolvency Law Shifted From Creditor-In-Control To Debtor-In-Possession, And What Does Theory Say About It?

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ABSTRACT
India has long struggled with an ineffective insolvency framework wherein management control remained with the company's management even after they had pushed the company into financial difficulties. As a consequence, financial creditors had to wait for years to get a part of their dues. To solve this problem, a new code called Insolvency and Bankruptcy Code, 2016, was introduced. The code initially offered much-needed improvements through the Corporate Insolvency Resolution Process (CIRP). Through this new system, after a company defaults and becomes insolvent, the management is changed, and the Board of Directors is suspended under Section 17. The control is then given to the Committee of Creditors, comprising financial creditors, to take decisions regarding the company's resolution. The Committee of Creditors decided what was going to happen next. The Insolvency and Bankruptcy Code, 2016 and the Corporate Insolvency Resolution Process were put into place for lenders. The Supreme Court, in the Swiss Ribbons vs Union of India, in a 2019 ruling, said, "The old system was a paradise for those who defaulted on payments." It was not good policy, but it was required by the constitution. Section 29A has taken it a step further by saying that promoters who caused the default are not permitted to buy back the companies through a resolution plan. The message was clear: "If you caused the problem, you don't get to solve it on your own terms."
Something new happened in the year 2021. The Parliament introduced the Pre-Packaged Insolvency Resolution Process in Chapter III-A of the IBC. This was supposed to be a friendly way for small businesses, such as MSMEs, to deal with debts up to ₹1 crore. The problem with this is that the people in charge of the company, the Board of Directors, are still in charge. The company that owes money gets to make a plan on how they are going to fix things before the people they owe money to get together and discuss it. The people who never paid their debts are in charge of the situation. This is not a small change to the CIRP. It goes against it. This paper is asking a question. Can these two very different methods of doing things, one in which the people in charge are taken out of the situation and one in which they are still in charge, work together in the same law without causing problems? Through an examination of the ideas about insolvency, the argument between allowing managers to stay in charge and not allowing them to stay in charge, this paper argues that the Pre-Packaged Insolvency Resolution Process is causing a problem that the courts, in India, will have to deal with at some point in the future. The fact that some companies have been able to utilize the Pre-Packaged Insolvency Resolution Process since 2021 says a

lot about the situation that the Pre-Packaged Insolvency Resolution Process does not align well with either of the two ways of thinking about insolvency, the Pre-Packaged Insolvency Resolution Process.

KEYWORDS: Insolvency and Bankruptcy Code, CIRP, PPIRP, Creditor-in-Control, Manager-Driven Model, Section 29A, Legal Contradictions, Swiss Ribbons Case.

1. INTRODUCTION:

India's insolvency legislation saw a significant reform with the implementation of the IBC in 2016, shifting from the previous debtor-in-possession (DIP) system to a creditor-in-control framework. The IBC establishes a time-sensitive Corporate Insolvency Resolution Process (CIRP) designed to optimize value for every stakeholder. The Supreme Court confirmed this perspective in Swiss Ribbons v. Union of India (2019), supporting the IBC's goal of quick corporate recovery and acknowledging that management can be removed to safeguard assets.

Nonetheless, executing the IBC has proven to be difficult. Despite enhancements in outcome metrics (such as recovery rates of approximately 95% of asset value and Doing Business rankings), seve ral delays and gaps persist. Specifically, the typical CIRP framework frequently places a heavy burden o n small businesses with an extended, expensive procedure that necessitates a change in their leadership.

To meet the needs of MSMEs, Parliament launched the Pre-ackaged Insolvency Resolution Process (PPIRP) in April 2021. PPIRP serves as a quicker, more affordable option that allows the debtor's board to remain intact (with c ertain protections) while interacting with creditors.

Goals and Inquiry Questions: - This study examines if PPIRP is achieving its objectives and highlights the discrepancies between its intended design and actual implementation. Important research inquiries encompass:

- RQ1: What constraints exist in India's current insolvency framework for MSMEs, and what prompted the development of PPIRP?
- RQ2: What legal and rocedural deficiencies have arisen in the design of PPIRP (e.g., eligibility under Section 29A, timeline s, management control)?
- RQ3: In what ways has PPIRP proven effective in practice, and what evidence of successes or challen ges can be found (from case studies and data)?
- RQ4: Considering the evidence, what alterations in policy or procedure could enhance insolvency resolution for MSMEs, and what would be the best way to execute them?

This research utilizes official resources (IBC regulations, reports from the Insolvency Board and tribunals, government press statements) as well as academic and indusTry evaluati ons. We analyze important literature, highlight inconsistencies and stakeholder issues, and suggest evide nce-based solutions.

LITERATURE REVIEW:

CIRP v DIP – The New Regime: Prior to the IBC, India followed a DIP approach under its SICA regime. However, with the IBC, there was a paradigm shift to a creditor-in-control approach. It was held that “it is imperative to recognize that the legislative intent behind the IBC is to ‘revive’ debtors and not merely to ‘liquidate’ them in an expeditious manner. In CIRP, the National Company Law Tribunal immediately cancels the corporate debtor’s board and appoints a RP as an interim manager. By law, financial creditors and operating creditors
form a “Committee of Creditors,” who have to approve or reject plans (66% voting share required). Swiss Ribbons upheld this regime and held it to be constitutional and revival-oriented.

This approach, though creditor-friendly and beneficial for large cases, has been seen to have its drawbacks. For example, Ram Mohan and Raj, IIMA, have contrasted pre-packs globally and cautioned that “speedy pre-packs can be creditor-detrimental if not carefully calibrated.” Similarly, global commentators have cautioned that “DIP approaches can often result in asset stripping unless checked.”

PPIRP Introduction and Design: Official and academic literature agrees that PPIRP is a hybrid model. The Insolvency and Bankruptcy Board of India states that “PPIRP is an informal process up to a point and a formal process thereafter.” It is “a combination of ‘debtor-in-possession’ and ‘creditor-in-control’ approaches.” In PPIRP for MSMEs, a base resolution plan is prepared by the debtor (promoter/board) with creditor participation. The debtor seeks approval for its proposed RP and approval of at least 66% of its financial creditors by value. If approved, it is admitted as a PPIRP under the NCLT. Management remains with the existing board of directors/partners throughout the process of PPIRP, except in cases of gross mismanagement or fraud. A committee of creditors is constituted to consider plans under PPIRP. If no plan is approved within 90 days of commencement of PPIRP, it terminates and liquidation commences. Under the law, it must be completed within 120 days of its admission under the NCLT, extendable to 134 days. The government believes this process is “quicker, more cost-effective, and value-maximizing for MSMEs, while at the same time preserving employment opportunities and allowing honest promoters to stay engaged.”

Table 1 summarizes the key features of CIRP versus PPIRP:

Feature	**CIRP (Standard IBC)**	**PPIRP (MSME)**
Initiation	By financial creditor, operational creditor, or debtor. Default ≥ ₹1 lakh triggers petition.	Only by corporate debtor (MSME) with base plan. Default ≥ ₹1 crore (or ≥₹10 lakh for pandemic period).
Management Control	Board suspended; RP takes control of affairs (DIP to CIP shift).	Board continues to manage; only shifts to RP if fraud/gross mismanagement.
Creditors’ Role	CoC of financial creditors votes on plan (66% required). Operational creditors have limited rights.	Debtor must first obtain 66% support from financial creditors to admit PPIRP; creditors then review debtor’s base plan.
Timeline	330 days (270 with two 90-day extensions) under Code.	120 days (with one 14-day extension), intended to be faster.

Feature	CIRP (Standard IBC)	PPIRP (MSME)
Resolution Plan	RP invites and CoC negotiates multiple plans after admission.	Debtor proposes base plan upfront; others can bid if base plan fails.
Section 29A Eligibility	Bidders' ineligible if they caused default (e.g., undischarged defaulters). Applies to all resolution applicants.	Initially MSMe resolution applicants and promoters were exempt from 29A(c), but corporate debtor still checked under 29A by Section 54A (a drafting inconsistency).

Table 1: Comparison of India's standard corporate insolvency (CIRP) and the new MSME pre-pack (PPIRP) processes.

Key Literature and Gaps. Scholarly literature on PPIRP has begun to appear, albeit in limited numbers. Ram Mohan and Raj (2020) observe, for instance, that a pre-pack needs approval from creditors to protect stakeholders. Nandwana and Nigam (2026), in a study on early experiences with PPIRP in India, find "limited practical impact" due to high thresholds and approvals. The study reports mixed results and recommends improvements to engender buy-in and flexibility. An industry study (IIMA, 2023) reports on just one successful PPIRP resolution in two years, namely, Amrit India, raising questions on its efficiency too. However, literature on broader insolvency reforms highlights how the IBC aims to rescue, not penalize, and how improvement in MSME support remains a constant need.

Research Gap. Although literature from official sources claims many benefits from PPIRP, a gap exists between theory and practice, and no study has fully assessed its on-ground performance in India, especially with regard to legal contradictions and stakeholder effects. This study seeks to bridge this gap by drawing on literature on PPIRP's problems and how they might be remedied.

METHODOLOGY:

This qualitative study brings together information from official sources andcademic/commentaryThis qualitative study amalgamates data from official sources and scholarly/commentary literature. We looked at:

Laws and rules: the IBC Code and Rules (especially Section 54A–54L, which was added by the 2021 Amendment), official IBBI publications (like the PPIRP brochure[2]), and government press releases (like the PIB and Lok Sabha responses from the Ministry of Finance[15][3]).

- Judicial pronouncements: Supreme Court rulings (Swiss Ribbons), orders passed by tribunals (e.g., NCLT orders, as mentioned in IBBI/IIMA reports).
- Academic and professional analyses: Working papers (IIMA[16]), research articles published in journals (Shruti Nandwana et al.[6]), and legal blogs/news published in online news platforms (ET BFSI, IBCLaw, etc.) on the subject of PPIRP.
- Case studies and data: Summary reports published by IBBI/NCLT, case studies (e.g., Amrit India PPIRP, Sudal Industries, etc.) as discussed in the recent studies[7][14].

In the above, we tested the extent to which the literature explained the objectives, processes, and outcomes of the PPIRP. Inconsistencies in Section 29A, quantitative data (e.g., the number of cases resolved), and stakeholder opinions are the basis on which the solutions offered in the current.

4. FINDINGS AND ANALYSIS:

1. Insolvency in India: From DIP to CIP

India has adopted a new approach in its IBC, allowing for quick management changes when a company admits insolvency. Earlier, under the old SICA, companies faced a lengthy recovery period under their original promoters, also known as a DIP approach, leading to lower recoveries and longer resolution times. However, under its new IBC, India has adopted a new approach, allowing its creditors, especially its financial creditors, to take control through a Committee of Creditors (COC). Indeed, one study has noted that "India has adopted a creditor-in-control approach under its new Insolvency and Bankruptcy Law, moving away from a management-led approach, like DIP, commonly seen in many countries." This has resulted in improved credit discipline, with, for instance, its insolvency resolution rank moving from 108 to 52 in its Doing Business rankings, based on World Bank data, following the introduction of its new IBC.

However, even though CIRP has resulted in quicker resolution for many large debtors, it has also been seen to be unfair to smaller debtors, with every suspended board needing to comply with strict disclosure and compliance requirements, and minority lenders and operational creditors often not being treated fairly. Indeed, the Indian judiciary has also emphasized its commitment to revival rather than punishment, with one study noting that "the IBC has been repeatedly emphasized to be a code for revival, not a code for punishment." Indeed, in its 2019 decision in Swiss Ribbons, the Supreme Court reaffirmed its pro-debtor stance under its new IBC by stating that "insolvency is not adversarial," allowing an existing promoter to operate a distressed entity under supervision, even as it upheld Section 29A, prohibiting unscrupulous bidders.

2. Design of Pre-Pack (PPIRP) for MSMEs

Why PPIRP? MSMEs are the backbone of the Indian economy and are relatively simple and low-margin businesses. They were hit hard by the COVID-19 pandemic. To mitigate the situation, the government has designed the PPIRP as an "efficient alternative" to the MSME insolvency process. According to the IBBI brochure: "PPIRP has been introduced to ensure the company remains with the Honest Owners and to ensure the process is quicker, cost-effective and value maximizing in a manner least disruptive to their businesses, and which preserves jobs".

Key Features of PPIRP (MSMEs only):

Only the corporate debtor or its board can file the application and has to submit a Base Resolution Plan (BRP) along with the application. The corporate debtor has to get approval from at least 66% of its financial creditors by value who are not related parties. The proposed RP's selection too has to get approval from the Committee of Creditors (CoC). Once the application is admitted by the Adjudicating Authority (NCLT) within 14 days of the application being filed, the debtor's management would continue to remain in charge of the corporate debtor during the entire process of the PPIRP. Thereafter, the creditors would form a CoC within 7 days of the approval of the application and would consider the BRP submitted by the corporate debtor. Simultaneously, the corporate debtor can modify the BRP or other Resolution Plans can be submitted by the corporate debtor or other bidders. Most importantly, the PPIRP process has a hard stop of 120 days (extendable by 14 days) to conclude the process either by approving a Resolution Plan or closing the process, which is a much shorter process than the CIRP process of 270-330 days.

3. Implementation Challenges

Legal Contradictions (Section 29A Issue):

The first challenge is related to the contradiction between Section 54A and Section 29A. While PPIRP was brought in to help MSME promoters revive their businesses, Section 29A would bar them from availing this process if they have been willful defaulters. At the same time, Section 240A allows them to be part of the process as a resolution applicant. It creates a contradiction, thus discouraging genuine promoters.

Process Delays & Procedural Complexity:

The process was designed to be completed within 120 days, but it was seen that PPIRP cases often went beyond this deadline due to procedural complexities. In some cases, it was seen that Tribunals demanded documentation and hearing procedures similar to CIRP, thus delaying the process of admitting and approving PPIRP.

Low Adoption & Structural Barriers:

PPIRP adoption remains low due to various structural issues:

Entry barriers: ₹1 Crore Defaults

66% approval requirement for creditors

Eligibility issues, especially for promoters who would be disqualified under Section 29A

Cost and compliance issues, as preparing base plans and disclosures for RP preparation is almost similar to CIRP preparation.

Fraud Risks & Weak Early Oversight:

PPIRP is based on a debtor-in-control approach, where promoters would have complete control until the pre-admission stage. There is a risk of asset stripping and other fraudulent activities. While avoidance under IBC can be initiated, it would be difficult to monitor this, considering that RP would be brought in at a later stage and would have limited time to investigate.

It is seen that there is a lack of transparency and oversight at an early stage.4. Summary of Findings

4. Summary of Findings

- Procedural hurdles, such as strict approval and eligibility criteria, have kept many MSMEs waiting.
- Timeline extensions, exceeding 120 days, are a problem, especially in simpler cases, due to judicial caution and incomplete filings.
- Legal uncertainty, such as the drafting error in Section 54A vs 240A/29A, remains unresolved, leading to inconsistent outcomes.
- Lack of buy-in, such as seen in Amrit India and Sudal, has resulted in failures when creditors do not cooperate or disagree on management.
- Fraud risks, a concern among many, might be allowed to creep in if vigilance is not enhanced.

The gaps indicate a mismatch between theory and practice, with theory supporting quick rescues and practice involving a slow and complex process. The research gap here, therefore, lies in the fact that while PPIRP was meant to help MSMEs, there was a lack of hard data and evaluation on its effectiveness, and our research has shown that its promise remains largely unfulfilled due to these hurdles.

5. PROPOSED SOLUTION/INTERVENTION: -

A hybrid approach is recommended, striking a balance between trusting genuine MSME promoters and increasing protection for creditors and regulators.

Core Measures:

1. Legal Clarity:

Modify Sections 54A/29A to eliminate inconsistencies and allow genuine MSME promoters to participate in PPIRP.

2. **Lower Creditor Threshold:**
Modify the 66% approval requirement to 51%, and simplify the documentation process for MSMEs.
3. **Early Oversight:**
Make disclosure requirements (related-party transactions, bank statements) mandatory, and allow Resolution Professionals to have early access to detect fraud.
4. **Strict Timelines:**
Adopt fast-track admission within 14 days and a 120-day timeline for completion, with a focus on increasing NCLT efficiency.
5. **Stakeholder Awareness & Training:**
Create awareness among MSMEs regarding PPIRPs and educate RPs and judges to ensure smooth implementation with minimum scrutiny.
6. **Pilot Implementation:**
Implement these changes through pilot programs and monitor performance to make necessary changes.

6. FEASIBILITY, RISKS, AND MITIGATION: -

Most changes are feasible, considering they build on existing momentum. For example, the amendments to thresholds and quicker admission are already legislated. Further, clarifying eligibility under Section 29A might involve a minor act or rule change, which is technically feasible. Lastly, regulatory guidelines and training are part of IBBI's mandate and are not costly.

Risks associated with our proposal include a possible abuse of a relaxed PPIRP framework. For example, a reduction in approval thresholds might enable crafty promoters to force through poorly thought-out plans. To mitigate this, we propose maintaining robust provisions under Section 29A and IFC, such that a PPIRP filed fraudulently can still attract penalties under IBC Section 65[38]. Further, we also propose requiring promoters to file substantive BRPs upfront, which might dissuade frivolous filings.

Other risks include judicial capacity, whereby NCLTs might be overwhelmed and unable to meet deadlines. To mitigate this, we propose allocating dedicated judicial benches and using digital reminders for deadlines, a practice that has already been adopted elsewhere.

Buy-in from relevant stakeholders might also be secured by pointing to success stories. For instance, the first and only successful resolution under PPIRP, namely Amrit India, resulted from a clear haircut plan, ultimately leading to value maximization. Further, pointing to improved IBC recovery metrics under our proposal might also convince creditors that, like them, PPIRP also has a vested interest.

7. POLICY RECOMMENDATIONS:

Legislative Clarity: Modify Section 54A to provide an exemption to MSME promoters under Section 29A(c) to enable genuine promoters to participate in PPIRP.

Lower Voting Threshold: Incorporate the 51% approval threshold for creditors and reduce MSME compliance hurdles with timely government notifications.

Stronger Safeguards: Incorporate promoter disclosures and grant Resolution Professionals powers to identify and prevent fraud under Section 66.

Faster Judicial Process: Improve efficiency with time limits on judicial admissions (14 days) and approval of plans (30 days) and impose penalties for frivolous delays.

Greater Transparency: Incorporate provisions to mandate reasons for approval of plans in the CoC and establish a public registry of PPIRP cases.

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MSME Policy Integration: Strengthen PPIRP with other schemes supporting MSMEs to build greater lender confidence.

8. CONCLUSION:

India's pre-packaged insolvency process for MSMEs is a daring innovation in the field of corporate law and aims to save viable MSMEs and jobs by finding a delicate balance between the debtor and the creditors. However, the process has yet to achieve the desired success due to various legal and operational challenges. This analysis has identified the core challenges with the process, which are mainly the conflicts with Section 29A, high approval barriers, and operational challenges. This analysis has also presented evidence-based solutions to these challenges. By making the required changes to the IBC code to overcome these challenges, the PPIRP can achieve the desired purpose and allow MSMEs to survive the challenges they face with the owner being aware of what's caused the problem and being in a position to fix it, as the IBC code intends

9. REFERENCES:

1. **Supreme Court Judgement (Swiss Ribbons):**
- Swiss Ribbons Pvt. Ltd. & Anr. v. Union of India & Ors. (2019) 4 SCC 17.
- This is the landmark Supreme Court judgment that established the constitutional validity of the IBC, reinforcing the "creditor-in-control" model as constitutionally sound and discussing the exclusion of promoters under Section 29A to protect assets.

2. **First Successful PPIRP Resolution Case:**
- In the matter of Amrit India Limited, CP (IBPP) No. 03 (PB)-2022 (NCLT Principal Bench, New Delhi, Order dated May 3, 2023).
- This serves as the premier empirical case study of a finalized MSME pre-pack resolution under Chapter III-A of the IBC.

3. **Critical Academic Paper on Section 29A:**
- M.P. Ram Mohan & Vishakha Raj (2022), "Section 29A of India's Insolvency and Bankruptcy Code: An Instance of Hard Cases Making Bad Law?", Journal of Corporate Law Studies, 22(1), pp. 365-390.
- This study explores the tensions of promoter disqualification, directly supporting your argument on the Section 54A and Section 29A contradictions.

4. **Empirical Study on PPIRP:**
- Shruti Nandwana & Siddhi Nigam (2026), "Effectiveness of the pre-packaged insolvency resolution process (PPIRP) under the Insolvency and Bankruptcy Code, 2016: challenges, successes and the way forward", International Journal of Law and Management, pp. 1-25.
- This provides recent on-the-ground empirical data analyzing the high creditor consent thresholds and bottlenecks within the PPIRP framework in India.

5. **Official Regulatory Framework:**
- Insolvency and Bankruptcy Board of India (Pre-packaged Insolvency Resolution Process) Regulations, 2021.
- The core subordinate legislation containing the procedural guidelines, rules for preparing base resolution plans (BRP), timelines, and regulatory oversight for the pre-pack mechanism targeted at MSMEs.