

# From Chairperson's Desk

## Impact of the IBC – Systemic Benefits and Positive Spillovers

The Insolvency and Bankruptcy Code, 2016 (Code/IBC) has transformed India's insolvency resolution landscape. While its direct impacts like rescuing distressed businesses and improving creditor recoveries, are widely acknowledged, the IBC's influence extends far beyond these immediate outcomes. The Code's significance lies in its broader economic impact. It has generated substantial positive spillovers throughout India's economy, revitalizing credit markets, safeguarding employment, and elevating overall firm performance and corporate governance standards.

### Impact on NPAs

The banking sector's health has shown remarkable improvement. The RBI's Financial Stability Report (FSR December 2024) indicates a decline in the Gross Non-Performing Asset (GNPA) ratio of Scheduled Commercial Banks (SCBs) to a 12-year low of 2.6% in September 2024. The RBI's Report on Trends and Progress of Banking in India for the year 2023-24, as released on December 26, 2024, showed that the IBC emerged as the dominant recovery route for SCBs, accounting for 48% of all recoveries made by banks.

### Behavioral change and credit discipline

The provisions of the IBC have prompted debtors to take early action in distress situations, marking a positive shift in their behaviour. NCLT data shows that 30,310 cases were settled prior to admission, covering underlying defaults worth Rs. 13.78 lakh crore till December, 2024.

The impact of the IBC on credit discipline has also been corroborated by a study conducted by IIM Bangalore. The study has analysed data on corporate loan accounts, CIRP, firm-level financial data and NPA data. The study finds that IBC has prompted borrowers to adhere to stipulated loan payment schedules. During the period under review, the study notes a significant reduction in loan accounts deemed 'Overdue', both in terms of the Rupee amount as well as in terms of the number of accounts. Similarly, the yearly proportion of transitions of loan accounts from the 'Overdue' category to the 'Normal' category have increased, supporting the view of an improvement in the credit culture of corporates. Even the average number of days that a loan account stays in 'Overdue' category before transitioning to 'Normal' category has reduced from 248–344 days to 30-87 days. This shows that both debtors and creditors are trying to resolve the delinquencies at the earliest.

### Cost of debt and governance

As regards cost of debt, the above study indicates a 3% reduction in cost of debt for distressed firms post-IBC (vs. non-distressed firms), indicating an improved credit environment for distressed firms. The IBC has had a positive impact on corporate governance. One such finding, as per the study, has been improved proportion of independent directors on the boards of the companies resolved under IBC.

### Impact on firm performance post-resolution

The IBC has demonstrated remarkable efficacy in restructuring financially distressed entities, prioritizing business continuity over dissolution. This value-maximizing approach has liberated significant productive capacity and capital assets. These resources have been reintegrated into the economic mainstream, contributing to national economic productivity in alignment with the Code's principal objectives. Reaffirming the same, the IIM Ahmedabad had undertaken a study wherein the functioning of firms that have undergone resolution under the Code was reviewed. The Report noted significant improvements in firms' performance post-resolution such as - 76% increase in average sales, improved EBITDA and net margins, build-up in tangible assets indicated by a 50% increase in average total

assets and 130% increase in average CAPEX, convergence in profitability ratios with benchmark averages, overall increase in aggregate market valuation by three times, and improved liquidity by about 80%.

### Impact on employment

Beyond the explicit statutory objectives of the Code, the Code rescues failing CDs and thereby rescues the employment of several employees and their livelihood. One of the less talked about contributions of the IBC has been job preservation and job creation. In this regard, the above-mentioned IIM Ahmedabad study has noted that there is around 50% increase in the average employee expenses in the resolved firms (listed) in the three years post-resolution. The total employment across firms has also shown a substantial increase in the post-resolution period.

### Other systemic benefits

As noted in the Economic Survey 2024-25, some of the systemic benefits of the IBC, flowing through multiple channels, as proven by research, are as narrated below.

- **Forex hedging by firms:** Research shows that the likelihood for currency mismatches in the corporate sector has reduced after India's bankruptcy reform. As per BIS research (2018) the introduction of the new bankruptcy law raised the probability of currency hedging by 13.7 per cent for firms which originally had a high degree of currency mismatch. Thus, there is an incentive for firms to hedge currency exposure risk better in the presence of a bankruptcy law.
- **Reducing bond credit spreads:** Sengupta and Vardhan (2023) highlight that the IBC lowered the credit spreads for bonds issued by non-financial firms from FY17 to FY20 compared to the bonds issued by the finance firms in FY15 and FY16, especially when other issue-level determinants of credit spreads are considered. This shows an encouraging development and reinforces the fact that an effective bankruptcy resolution regime is critical for bond investors to develop confidence in the Indian market. Currently, the bond market is skewed towards high-rated (AAA and AA) bonds, which account for more than 85 per cent of all issuances. Investor confidence in effective bankruptcy resolution will be crucial to developing a deep and liquid market for lower-rated bonds.
- **Exports:** Khan and Chakraborty (2022), study a large sample of 4,434 firms between 2000 and 2020 and find that exporting firms in India have benefitted from the bankruptcy reform law by helping them better access credit and get out of financial constraints.

### Conclusion

The Code has delivered impact far beyond the conventional metric of creditor realization. By establishing a robust legal framework, the IBC has strengthened credit markets, fostered entrepreneurship, and significantly enhanced India's ease of doing business parameters. These improvements have created a more conducive environment for investment, ultimately driving economic growth and development. While challenges persist, including process delays and recovery rates below expectations, the Code's foundational structure remains sound. As implementation matures and jurisprudence evolves, the IBC is well-positioned to overcome these hurdles and fully realize its transformative potential in India's financial ecosystem.

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