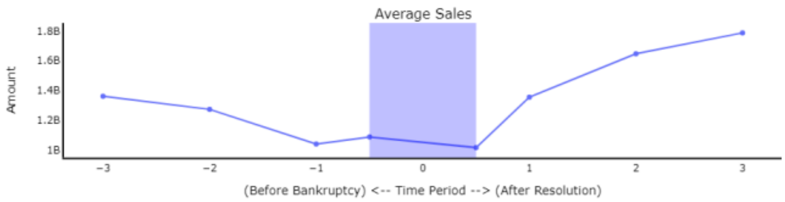
Effectiveness of Resolution Process: Firm outcomes in the post-IBC period
Research Study conducted by IIM Ahmedabad

1. The Insolvency and Bankruptcy Code, 2016 (IBC) has remarkably altered how distressed and defaulting businesses are handled by their stakeholders. The creditors have, on average, realised 32% of the admitted claims and 168% of the liquidation value in cases resolved under IBC. This data primarily reflects the outcomes in terms of financial recovery. However, it is essential to recognize that the success of resolution goes beyond these recovery figures. Now, as seven years have passed since the implementation of the legislation, it is an opportunity to review the functioning of firms that have undergone resolution under the IBC.

2. To understand the impact of the resolution process on the firms, IIM Ahmedabad (IIMA) has conducted a research study. The Report of IIMA looks at the performance of the firms both before and after the resolution process, to understand if the firms have been able to find their feet in the market. The Report also compares the performance of the resolved firms against their peers by sector and size. This comparison tells the magnitude of the gap and separates the changes that have arisen due to market forces, compared to changes brought about by better management.

3. Some of the key findings are:

- Average sales have shown an increase of 76% in three years since resolution. While the net margins continue to remain negative, the resolved firms have operationally broken even in the post-resolution period (operating margin of 4% as of T+3), which is a significant improvement from the pre-resolution period.



Here, t = 1 refers to one year after resolution and t = -1 refer to one year before bankruptcy and similarly for all other years.
The time window is displayed on event time rather than calendar time. So, a firm resolved in 2018 and one resolved in 2020 will be classified in the same event year. Also, t = -0.5 refers to the year of Bankruptcy, and t = 0.5 refers to the year of Resolution.
The band in between during the resolution process is only indicative. For instance, firms may take less than two years to resolve or more than two years to resolve.
Note that B refers to Billions and M refers to Millions in the y-axes.

- There is around 50% increase in the average employee expenses in the three years post-resolution—indicating a higher employment intensity in the resolved firms (listed) in the post-resolution period. The total employment across firms have also shown a substantial increase in the post-resolution period.

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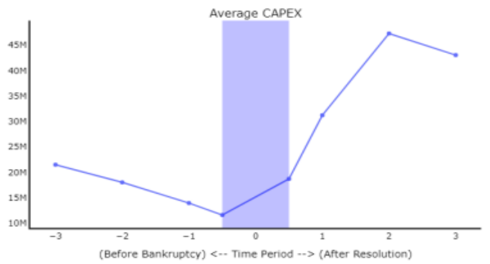
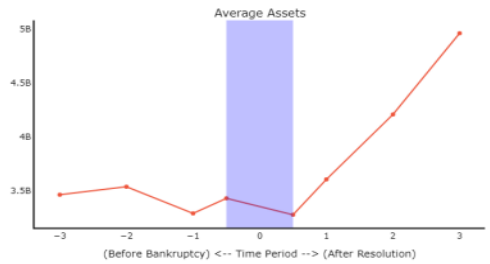
Note that k here refers to 1000. So 30k means 30,000.

- The trends indicate a significant increase of around 50% in the average total assets of resolved firms post resolution. This is coupled with 130% increase in the CAPEX, which indicate a build-up of tangible assets in the balance sheet of these firms in the post-resolution period.





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- The Report further finds that there is convergence in the profitability ratios of the resolved firms with the benchmark averages in the post-resolution period.

- The trends in the market capitalization of listed resolved firms indicate a significant revival in the average market valuations in the post-resolution period, which is expected given the growth opportunities that will accrue to these firms post the resolution with the creditors. A similar trend is seen for the aggregate market valuation of all the resolved firms which has increased from around INR 2 lakh crore to INR 6 lakh crore in the post-resolution phase. Overall, the results suggest that the market has priced and acknowledged the potential of these firms in the post-resolution period.

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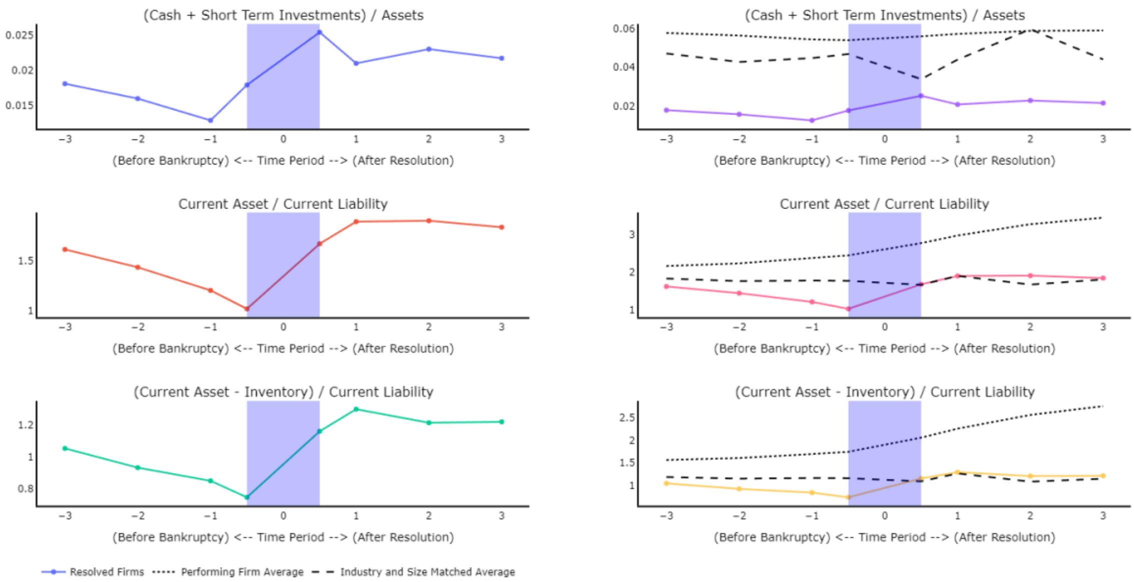
Note that k here refers to 1000. So 5k means 5,000.

- Liquidity has improved in the post-resolution period by about 80%. The trends indicate a significant increase in the liquidity of the resolved firms in the post-resolution period. For instance, the current assets to current liability has improved from 1.01 in the year of bankruptcy to 1.83 in the third year post-resolution.



4. The complete Report can be accessed at www.ibbi.gov.in