

Balance Sheet of a Decade!



Report Card 2014-24

IBC Haircuts

The essence of democracy requires that we hold governments to account vis-a-vis their claims and promises. But one of the biggest casualties of the recent years has been the idea of accountability. The divisive and jingoist hyperboles in the media facilitate a collective amnesia. This report card (though not conclusive) is part of a series, by the Financial Accountability Network India, that attempts to glance through and highlight a few of the claims and reality of the government's performance across various sectors from a financial and economic lens.

CLAIMS



1

"**The Insolvency and Bankruptcy Code (IBC) 2016**" was passed in Parliament in May 2016 with the stated aim of recovering mounting NPAs from the corporate sector.

2

It was claimed that this act would prove to be highly effective in the recovery of NPAs from the corporates as otherwise, these corporate borrowers would face liquidation.

3

Addressing a **rozgar mela** in June 2020, Modi stated that 99% of deposits of the public in banks have become safe. He added that the wealth of those who looted banks will be attached.



REALITY



1

From 2016 to 2023, 7325 cases of defaulters were admitted under Insolvency and Bankruptcy Code for what is called the Corporate Insolvency Resolution Process (CIRP). **Till December 2023 Rs. 23.19 lakh crore was admitted. Out of which only 3.867 lakh crores have been realized or is realisable.**

2

The recovery rate for those cases that underwent resolution was only 32%. In cases that have ended in liquidation, the recovery rate was abysmal at just 5%.

3

According to a report by credit rating agency CareEdge, the **overall recovery rate has fallen in the past few years.** The cumulative recovery rate has been on a downtrend, decreasing from 43% in Q1FY20, 32.9% in Q4FY22, and 32% in Q1FY24.

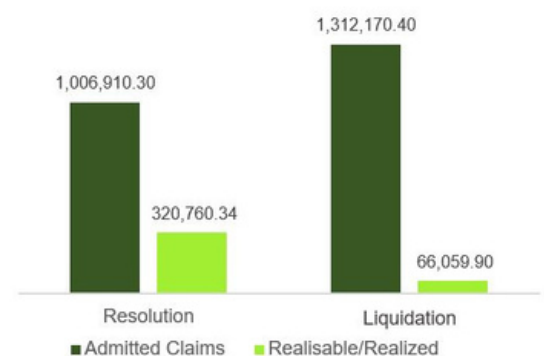
4

The recovery rates present a different picture if the 12 initial big ticket accounts announced by the RBI in 2016 are to be excluded. Then for the cases ending in resolution the recovery rate on an average **falls from 31.9 % to 24.4 %.**



Source: IBBI newsletter

IBC recovery (as on December 2023)
(In cr)





Reality of Bankruptcy cases in IBC in a nutshell..



BANK: **COMPANY X** OWES US **100 RUPEES**, AND NOW THEY'RE SAYING THEY CAN'T REPAY THE LOAN! WE NEED TO RESOLVE THIS THROUGH IBC.

COMPANY X: I HAVE NO MONEY, AND THE LONGER THIS NEGOTIATION TAKES, MY ASSETS WILL CONTINUE TO LOSE ITS VALUE.



COMPANY Y: I CAN BUY **COMPANY X**. BUT IT IS IN BAD SHAPE, I WON'T PAY MORE THAN **20 RUPEES** TO SETTLE THEIR DEBT.

BANK: DAMN. THAT'S A HAIRCUT OF **80%!**



BANKS, ESPECIALLY PUBLIC ONES, CONTINUE TO FACE HUGE LOSSES BECAUSE OF THE HAIRCUTS. AN AVERAGE LOSS OF RS. 83 WAS INCURRED BY THE BANKS FOR EVERY RS. 100 OF CLAIMS ADMITTED UNDER THE IBC.



The Magic Salons: Haircuts of Convenience



DHFL had an NPA of **Rs. 91,000 crore**. It was sold to **Piramal** Group of Companies for only **Rs. 37,250**, at a **haircut of 60%**.



13 companies belonging to **Videocon Industries** having an NPA of **Rs. 71,433 crore** were sold to **Vedanta** Group of Companies (the mining giant that has constantly breached environmental regulations and targeted indigenous peoples' lands) for a paltry amount of **Rs. 2,962 crore**. Banks faced a **haircut of 95.85%** because of this. The haircut enabled Vendanta to buy Videocon for less than 5% of its value.



Siva Industries, having an NPA of **Rs. 4863 crore** was allowed to settle its debts through a One Time Settlement (OTS) for only **Rs. 318 crore**, with a **haircut of 93.5%**. On payment of the amount, the remaining **Rs. 4,545 crore** will be written off and Siva Industries will be handed back to its main owner Sivasankaran. It will also be allowed to borrow loans from public banks again, even after causing such a huge loss to them already.



Consortium of **JSW and AION** Investments Pvt. Ltd. acquired **Monnet Ispat & Energy Limited** for **Rs 2,892 cr** after a massive **haircut of 74%**.



Alok Industries having an NPA of **Rs. 29,523 crore** was settled for **Rs. 5,052 crore** only. It was purchased by Mukesh Ambani's **Reliance** Industries Limited with an **83% haircut**. Banks had to suffer a loss of Rs. 24,471 crore because of this.



Jet Airways had an NPA of around **Rs 7,807 cr**, which was sold to **Jalan Fritsch** for only **Rs 1,375** at a massive **haircut of 82%**, in which banks had to suffer a loss of Rs 6,432 cr in which SBI was one of the main creditors.



Essar Steel was acquired by **Arcelor Mittal** for **Rs 41,000cr** at a **17% haircut**. SBI had estimated a loss of Rs 8,455 cr in this resolution.



Mukesh Ambani's **Reliance Communications** which was under insolvency process for the last 4 years, was acquired by **UV Asset Reconstruction Ltd** for **Rs 4,400 cr** at a massive **haircut of 91%**, in which banks have to suffer a massive loss of around Rs 44,600cr



TATA Steel through its subsidiary arm **Bamnipal Steel** acquired **Bhushan Steel**, completing the resolution of the first case under IBC for **Rs 35,571 cr** at a **haircut of 36%**, SBI had an estimated loss of Rs 20,431 cr in this resolution.

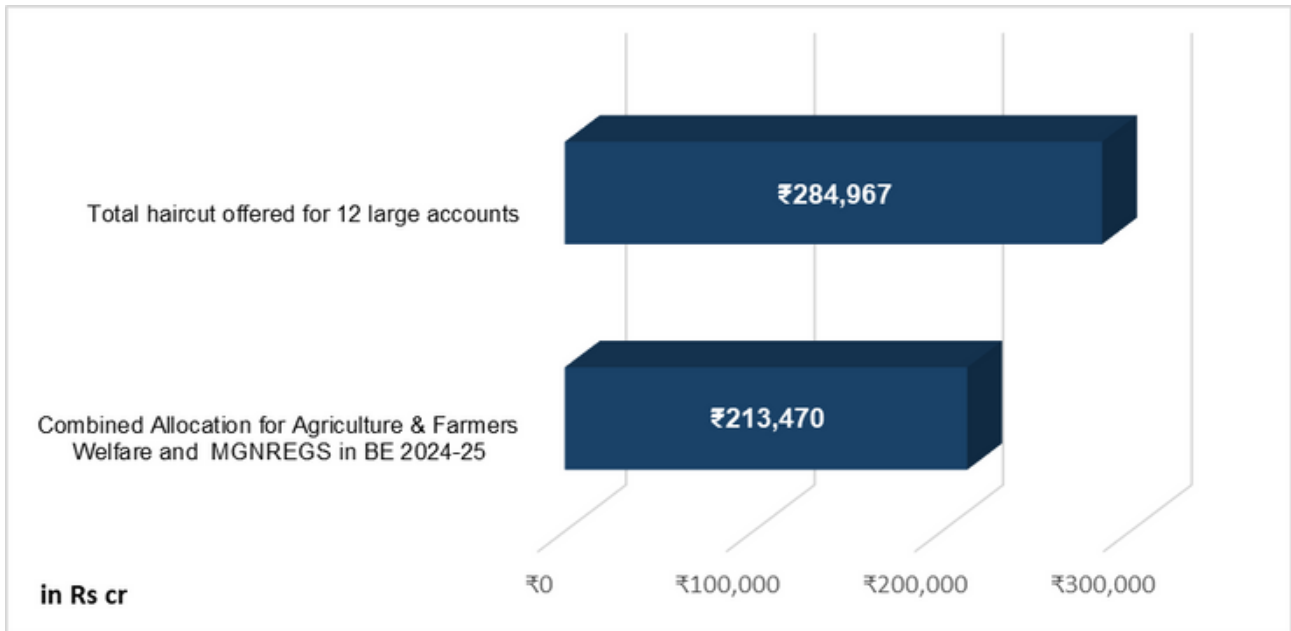
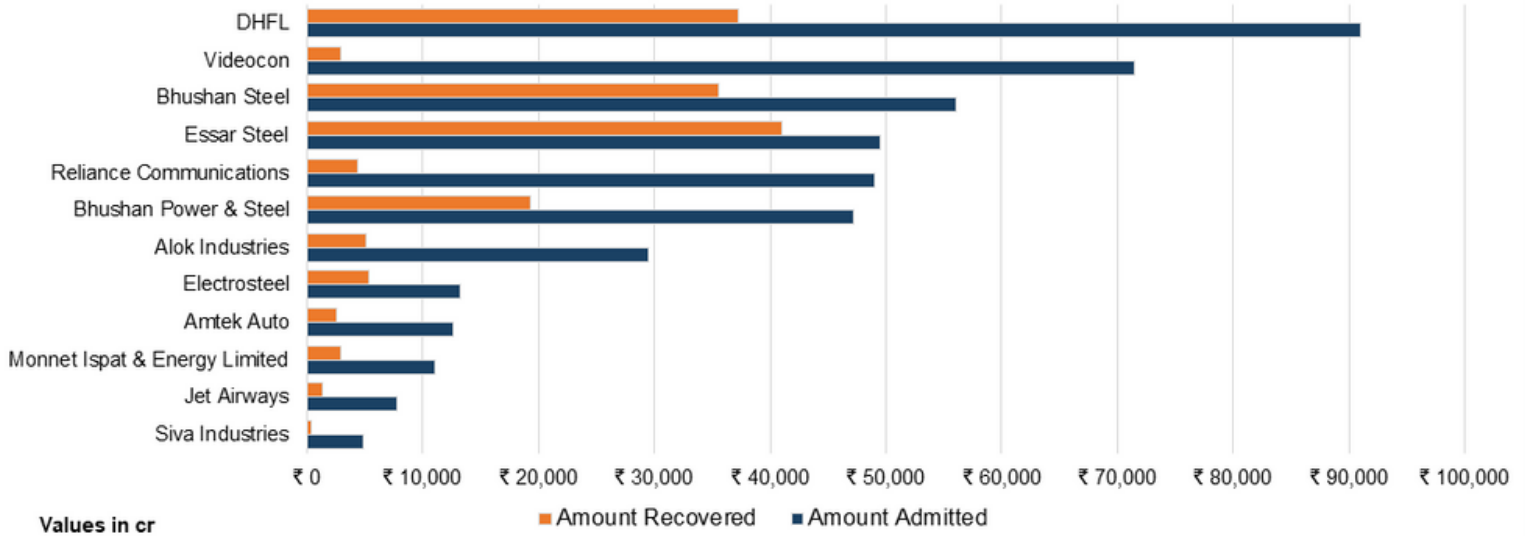


Amtek Auto Ltd was acquired by **Deccan Value Investors & DVI PE(Mauritius) Ltd** for **Rs 2,615 cr** at a massive **haircut of 80%**, in which Banks had to face a loss of Rs 10,026 cr



Electrosteel Ltd was acquired by **Vedanta** for **Rs 5,320 cr** at a **haircut of 60%**.

Hall of Shame: Major large accounts under IBC mechanism



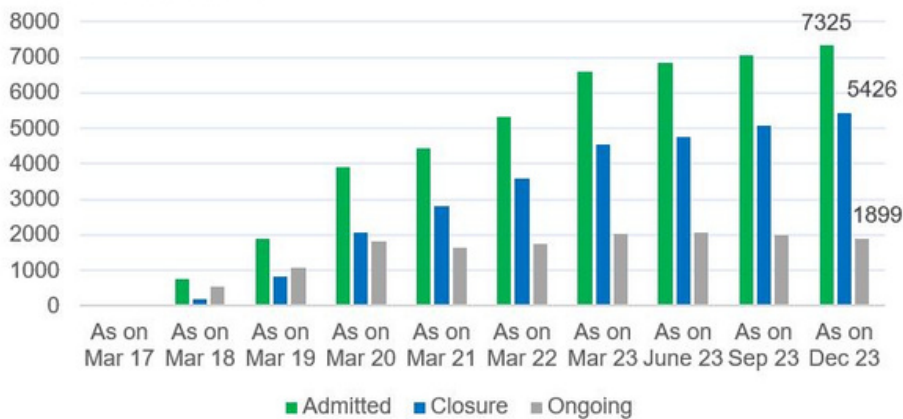
The total haircut offered to these 12 large corporate accounts under IBC is 2.84 lakhs cr, which is much greater than the combined allocation of 2.13 lakhs cr for agriculture & farmers welfare and MGNREGS in Budget estimates of 2024-25. If this written amount had been recovered the allocation to these would have been doubled.

Outcome of closed CIRPs:



- The majority of the closed cases have resulted in liquidation. **As of December 2023, 5426 cases were closed and 44 % of these have resulted in liquidation.**

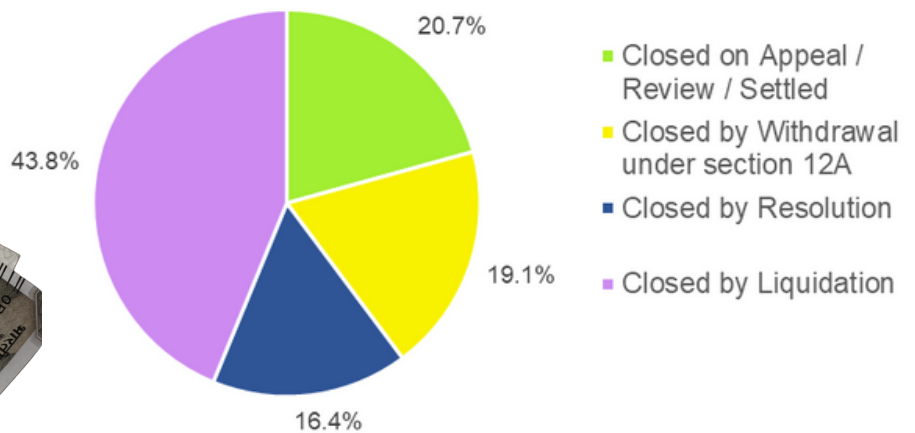
Cumulative of CIRPs



Source: IBBI newsletter

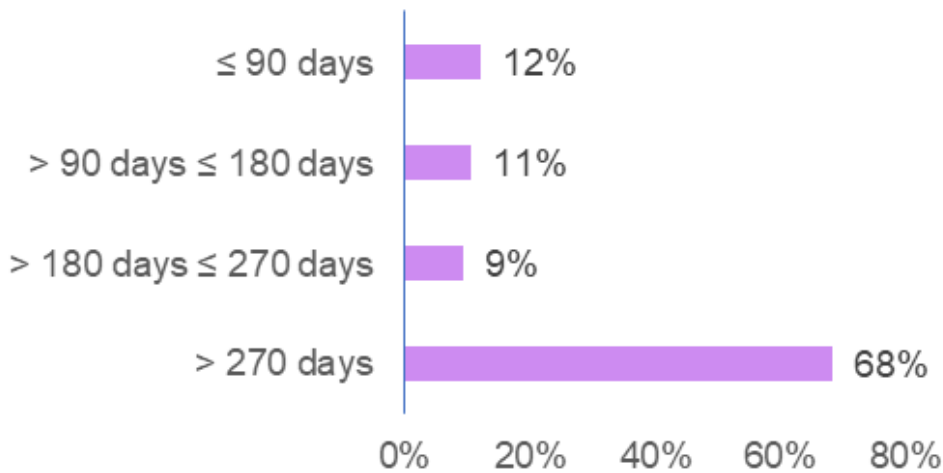
- Resolution closed by withdrawal under section 12(A) is around 19% of total cases. Section 12 is often abused to bargain for OTS (One-time settlement) at a significant haircut. 21% and 16% are closed on appeal and by resolution respectively.

Outcome of Closed CIRPs



Delays in the resolution process:

Timeline of ongoing CIRPs



The government's claim that the IBC will lead to faster resolution of cases has also been untrue.



The resolution time is 590 days on average, despite the limit under the IBC being 330 days.



Of the ongoing admitted cases, 1295 cases (out of 1899, that is 68%) have been going on for more than 270 days.



The shortage of judicial officers along with delays in appointing new members to the tribunal bench have added to the delays in the resolution of bankruptcies.



According to information disclosed in a written response in the Lok Sabha, as of January 2023, there were 12,963 pending cases under the Insolvency and Bankruptcy Code (IBC) within the jurisdiction of the National Company Law Tribunal (NCLT) bench.



The IBC has not deterred wilful defaulters and fraudsters also as the government had claimed. There has been an **increase in the number of wilful defaulters** from 2018 to 2022 by 65% of accounts with more than Rs. 1 crore loan defaults.



The massive haircuts not only affect banks but also operational creditors (like MSMEs that manufacture parts for huge corporations) without them even being part of the IBC process. **This might put a lot of small businesses and MSMEs at risk of losses and even insolvency.**



While crores are written off for the corporates, **but** when it comes to farmers' loans, education loans and loans for MSMEs, the recovery is most stringent!



HIGHLIGHTS



Who faces the burden for the losses banks incur because of the IBC?



It is the citizen, whose money is deposited in the bank and whose tax money funds its running.

Due to increasing losses for banks under the IBC and other factors, the amount of money provisioned for **NPAs by banks increased almost ten-fold between 2010-2015 and 2017-2022**. The profits of public banks were directly utilized to offset losses from IBC haircuts.



The **Parliamentary Standing Committee on Finance**'s report on the Insolvency and Bankruptcy Code (IBC) came down heavily on the Union government for the **“disproportionately large and unsustainable haircuts have been taken by financial creditors.”**

The panel said that IBC has **'deviated' from the original objectives** intended by Parliament and there is a need to **revisit its design and implementation** given the massive haircuts, inordinate delays and low recovery.



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