

RESCUING MORE, RECOVERING LESS

THE Insolvency and Bankruptcy Code, now in its 10th year, is perhaps India's most consequential market reform for resolving corporate distress and reallocating resources from failed enterprises to more efficient hands. Since its inception, the code has resolved stress of more than 4,400 companies, rescuing around 1,400 through resolution plans and sending the rest into liquidation.

The proportion of companies rescued has steadily improved: from 16 percent in 2017-18 to 48 percent in 2025-26. This is a significant achievement. It reflects a combination of legislative and regulatory facilitation, a consistent judicial preference for rescue over liquidation and growing institutional familiarity with the insolvency process. The IBC has undeniably converted a liquidation-first culture to one where business rescue is increasingly the norm.

Yet public discourse continues to judge the code primarily through the lens of creditor recoveries. This is conceptually misplaced. Recovery is only a by-product of insolvency resolution. The code aims to preserve enterprise value, continue viable businesses, discontinue unviable ones, reallocate capital efficiently and reinforce credit discipline. An excessive fixation on haircuts obscures these larger goals.

Even within the recovery debate, the metrics commonly used are often misleading. Official statistics place creditor realisation at roughly above 31 percent of admitted claims, while the World Bank estimates recovery in India at 72 cents to a dollar. The divergence reflects methodological differences. Both approaches compare recoveries against admitted claims, a benchmark detached from economic reality.

Many firms entering insolvency have already suffered years of value erosion. Comparing eventual recoveries with accumulated claims, therefore, tells us little about the effectiveness of the framework. A more meaningful benchmark is recovery relative to liquidation value of the assets available when the proceedings commence. Measured against this baseline, the IBC appears considerably more effective than headline haircut narratives suggest.

The data reveals another important feature: extreme concentration. Creditors in merely eight insolvency cases realised almost half the total recoveries generated from more than 1,400 companies. Such outlier cases heavily distort simple averages. To understand how the system performs in ordinary cases, it is



M S SAHOO

Emeritus Fellow,
Insolvency Law Academy and former
Chair, Insolvency and Bankruptcy Board

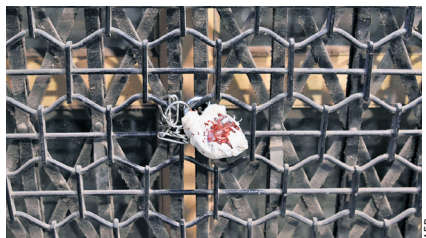


RAGHAV PANDEY

Director,
Post Graduate Insolvency Programme,
National Law University, Delhi

more useful to examine outcomes in the broad middle of the distribution.

One way is through the interquartile mean (IQM), which captures outcomes in the middle range. Read through this lens, the trajectory of the IBC appears more nuanced. The early years before the pandemic represented the code at its strongest, resolving large legacy defaults. The pandemic disrupted this momentum. What is striking, however, is that even after economic recovery, the system has not returned to its earlier performance levels despite the rising proportion of companies rescued.



The Insolvency and Bankruptcy Code, which marked its 10th anniversary at May end, faces a fundamental challenge in its second decade. As resolution rates have risen, timelines and recoveries have fallen. Value destroyed by delays dents the code's original promise

The evidence points to a troubling pattern. As resolution rates have increased, both timelines and recoveries have weakened. The IQM of recoveries relative to liquidation value has declined from 158 in 2017-18 to 130 in 2025-26. During the same period, the average time taken for insolvency proceedings ending in resolution plans has increased from 229 days to 886.

This does not necessarily establish causal relations among rescue rates, recovery rates and timeline. Several factors may be contributing simultaneously: changing case composition, weaker post-pandemic asset quality, prolonged litigation, strategic behaviour by stake-

holders and institutional delays. But the correlation is sufficiently strong to warrant serious attention.

The growing delay has drawn judicial concern. The Supreme Court recently noted that 363 resolution plans were pending with the National Company Law Tribunal for approval, some for nearly four years, and warned that unless these deficiencies were addressed on a war footing, the very purpose of the IBC would stand frustrated.

Delay destroys value. A company trapped in prolonged insolvency proceedings steadily loses customers, employees, contracts, suppliers and market relevance. The longer the process drags on, the smaller the eventual recovery pool becomes. This may explain the paradox in the data.

The real prize in insolvency resolution is the rescue premium, the difference between what creditors recover from a functioning business and what they would have recovered from a break-up sale in liquidation. That premium appears to have narrowed over time.

The composition of rescues appears to be changing, suggesting that the insolvency ecosystem has progressively shifted from resolving a smaller number of large, asset-intensive companies to a larger number of smaller or relatively asset-light enterprises. Alternatively, it may suggest that resolution applicants are becoming more selective in bidding for large distressed assets. A bidder may submit a resolution plan today but receive approval years later, by which time economic conditions may have fundamentally changed. Yet the applicant remains locked into the process with limited flexibility.

The implications are significant. If one applies the deterioration in recovery performance across the liquidation value of all companies rescued, the shortfall may run into tens of thousands of crores. That loss is ultimately borne by banks, depositors, taxpayers and the broader economy.

The harder question confronting the IBC in its second decade is whether a rescue that takes years and delivers lower value is consistent with the code's original promise.

(Views are personal)