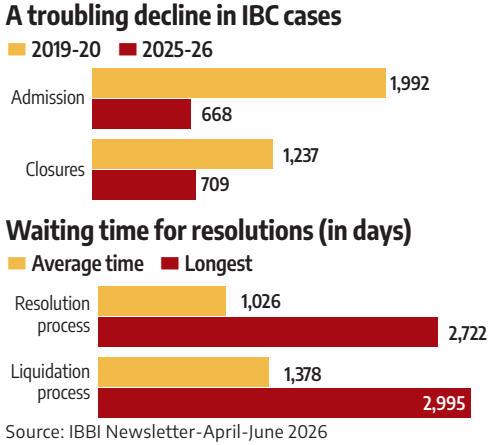
When patience stops paying

The IBC's long wait is driving creditors elsewhere



ILLUSTRATION: BINAY SINHA



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In January 2019, State Bank of India (SBI) did something few expected from India's largest lender in its own marquee insolvency case. It put its entire ₹15,431 crore Essar Steel exposure up for sale. The insolvency process had run 540 days with no end in sight. "There is a time value for money," SBI's then chairman, Rajnish Kumar, explained. "Every day it is costing lenders ₹17 crore, and my share is nearly 25-30 per cent. So we don't want to wait indefinitely."

The irony is hard to miss. Ten months later, the Essar saga finally ended. Lenders received about ₹42,000 crore, roughly 85 per cent of their claims, or about 276 per cent of liquidation value. Patience paid. But it took an extraordinarily long time to discover that it would. That is the dilemma India's insolvency system has struggled to resolve: What does waiting cost today, and what might waiting return tomorrow?



M S SAHOO & SANJEEV PANDEY

About a decade after the Insolvency and Bankruptcy Code (IBC) came into force, banks appear to have answered that question for themselves. Increasingly, when faced with a stressed borrower, the question is no longer whether to invoke the IBC. It is becoming: *Koi aur tareeka batao* — show me another way.

The numbers tell a troubling story. Corporate insolvency admissions fell to 668 in 2025-26, against 1,992 in 2019-20, the year before Covid. That is a fall of 66 per cent. The increase in the default threshold from ₹1 lakh to ₹1 crore is one possible explanation. But it cannot fully explain the decline. Applications by financial creditors, whose claims are generally much larger than the threshold, have also fallen substantially.

Another explanation is that the ecosystem is devoting more effort to closing processes that have matured to an outcome, whether by withdrawal, appeal, resolution plan or liquidation. Yet, such closures fell from 1,237 in 2019-20 to 709 in 2025-26, a decline of about 43 per cent.

And there is still a substantial stock of unresolved work. The Supreme Court recently flagged 363 resolution plans pending before the adjudicating authority for approval, some for as long as four years. This establishes that the system is taking in fewer cases and closing fewer cases. (*See table*)

More troubling is how long those cases take. During April-June 2026, a corporate insolvency resolution process that ended in approval of a resolution plan took, on average, 1,026 days, nearly three years. Among the 69 cases in the quarter, seven took more than six years.

The next stage, the liquidation process, is no better. Cases that ended in a liquidation order took an average of 897 days. The liquidation process itself took another 1,378 days on average. The combined journey is 2,275 days, more than six years from the insolvency commencement date to dissolution. Of the 31 companies liquidated during the quarter, the liquidation process alone took more than six years.

These are averages. A creditor cannot assume that its case will take the average time; it has to price the tail. The longest resolution-plan process in the quarter took 2,722 days, while the longest liquidation process took 2,995 days. Admission, resolution, litigation, liquidation and dissolution can together consume many years.

That changes behaviour. In insolvency, time is value. A company in distress is not a bottle of wine improving with age. Working capital dries up, customers leave, employees depart, suppliers tighten terms, licences and contracts become uncertain, and productive assets deteriorate. Every additional month in an unresolved process can destroy enterprise value.

The data on realisation tells the same story. The interquartile mean of realisation by creditors from resolution plans, measured against liquidation value, declined from 158 per cent in 2017-18 to 130 per cent in 2025-26. This does not mean that the IBC has ceased to deliver value. It means that time is eating into the value that the process is designed to preserve.

Meanwhile, banks are not sitting idle. The banking system has cleaned up its balance sheets substantially. Section 29A has restricted the return of many defaulting promoters through the resolution process. Asset reconstruction companies are acquiring stressed loans at scale. Growing private credit and negotiated restructuring now provide viable businesses with alternatives to formal insolvency.

That may be good for the economy. It also means that the cases reaching the IBC are increasingly those for which other avenues have failed, or where stakeholders believe the formal process offers the best remaining option. If those cases then enter a process that can take years, the economics of choosing the IBC become less attractive.

None of this calls for tearing up the IBC. The recent amendments, including measures aimed at faster admission and a creditor-led resolution route outside the conventional Corporate Insolvency Resolution Process (CIRP) architecture, recognise the problem. But legislation by itself cannot close the gap. The entire ecosystem must change.

Banks need to recognise distress earlier and escalate rather than spend quarters negotiating while value erodes. Creditors' committees must make commercial decisions in weeks, not months. Resolution professionals must be assessed on both value maximisation and time management. The adjudicating authority needs substantially greater judicial and administrative capacity. Appeals and litigation must not become a parallel business model. Most importantly, the system must measure itself differently. It should ask how much enterprise value survived the process, and how long it took to realise it.

If lenders quietly stop choosing the IBC, not because they doubt its legal architecture, but because they doubt its ability to deliver within an economically meaningful time, the Code may continue to look sound on paper while losing its place in the market. The time-value of money is not a banking principle alone; it is a test that an insolvency system must pass.

The lesson from Essar Steel was that patience can pay. But patience has a price, and that price rises with every passing day. The real test of the Code is whether it can deliver its outcome before the time value of money and the value of the company itself are lost.

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