

Literature review on the impact of IBC on companies

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Abstract: *The Insolvency and Bankruptcy Code (IBC), 2016 of India is a revolutionary legislation designed to simplify the insolvency resolution process of corporate bodies and their personal guarantors and prevent economic collapse. This study assessed how the IBC affects businesses, and focused on how it improves corporate recovery, debt collection, and creditor trust. The literature review analysed previous research, recognised the effectiveness of the IBC in managing non-performing assets (NPAs) and plugging out companies from financial distress. However, there were substantial gaps in knowledge regarding the long-term impacts of the IBC on corporate governance, financial sustainability, and its effects on SMEs and different industry sectors. The research highlighted the importance of continuous changes and additional studies to investigate these less-explored areas, particularly the varied impact of IBC on companies of varied sizes, industries, and regions and highlighted the importance of the IBC as a key element of India's economic structure, and calls for ongoing evaluation and improvement.*

Key Words: *Insolvency and Bankruptcy Code (IBC), Corporate Governance, Corporate Restructuring, Committee of Creditors, Debt Recovery.*

1. INTRODUCTION:

One of the initial steps to start research is to fish around the existing literature related to the research area. It is a significant compendium to address the issue, acknowledge its importance, and propose effective data collection tools, suitable research methodology and data sources. While conducting a literature review may be challenging, it requires a thorough understanding and a clear view of the subject area. To conduct a valuable study, the researcher must be well-versed in the existing work of the chosen field¹. Appraisal of existing works discusses the significance of evaluating and probable suggestions for developing a vast knowledge base of the topic as it develops. The other type of literature review emphasises new or developing subjects that could use a comprehensive understanding and integration of existing research. Since these subjects are still considered recent and have not been thoroughly studied in existing literature, the review will probably result in an initial understanding or interpretation of the topic, such as a new model or framework². The impact of IBC on corporations is an emerging topic. Thus, the researchers will review the existing literature to analyse the implications of IBC on corporates, how IBC has helped the corporates to improve their financial condition, how IBC helps in the restructuring of the companies and will plug out the gaps in these studies. Literature synthesis is employed to devise theoretical research on the impact of IBC on companies in the present study.

2. Objective:

The main purpose of this research paper is to appraise the existing works on the impact of the Insolvency and Bankruptcy Code 2016 on corporates and to ascertain the research deficiency.

3. Theoretical Framework :

The Insolvency and Bankruptcy Code, 2016 (IBC) is structured as a developmental law braced by a sturdy analytical structure that guides its objectives. These objectives include maximising asset value, maintaining businesses as going concerns, protecting creditors, promoting entrepreneurial growth, and considering the needs of different stakeholders. The structure of the Insolvency and Bankruptcy Code is based on numerous theories, including the **Creditors' Bargain Theory**, which considers insolvency statute as a procedure to resolve the combined problems of the creditors; the **Value**

Maximisation theory, which emphasises the protection of the continuity value of the debtor's company and the **Economic Efficiency Theory** that also emphasises diminishing the costs incurred in insolvency procedures. These theories form the base of framing and execution of insolvency statutes, structuring how the administration manages financially struggling corporations. The framework ensures that the insolvency regulations are both efficient and just, considering economic productivity and safeguarding stakeholders' interests³.

4. Literature review :

To overcome inadequacies in previous statutes like the Companies Act and SICA, the Insolvency and Bankruptcy Code (IBC) 2016 was passed. This overhauled India's bankruptcy and insolvency laws. The IBC instituted an entirely novel structure with the Committee of Creditors (CoC) and specialised adjudicating bodies, created a consistent framework for addressing bankruptcy for corporations and individuals, and attempted to enforce stringent deadlines for settlement. Regardless of its successes, the IBC continues to encounter obstacles such as adjudication delays, especially at the NCLTs, and repeated revisions to address new difficulties. These hurdles cast doubt on the IBC's ability to provide speedy solutions.

In his paper, **Sood**⁴ analysed that the Insolvency and Bankruptcy Code (IBC), which establishes an efficient and time-restricted procedure, has had a substantial effect on corporate rehabilitation and debt recuperation in India. It has encouraged early settlement of troubled assets, enhanced the rate of recovery, and strengthened creditor rights. Additionally, the IBC has decreased non-performing assets (NPAs) and encouraged corporations to handle their finances more systematically. This regulatory structure has improved company restructuring and accelerated debt recovery, strengthening the bankruptcy settlement procedure and promoting general financial stability.

In her study "A Critical Analysis of the Insolvency and Bankruptcy Code", **Athota S**⁵ closely examines India's 2016 Insolvency and Bankruptcy Code (IBC). The objective of the Insolvency and Bankruptcy Code (IBC) was to remove the debtor-in-possession model and replace it with a more equitable one that takes into account the needs of both creditors and debtors. Though the IBC was first commended for enhancing the insolvency resolution procedure and safeguarding creditors' interests, it has encountered difficulties, particularly in light of recent modifications. Amid the COVID-19 pandemic, the 2020 Ordinance was promulgated, which may put at a disadvantage, minor operating creditors by raising the default threshold and temporarily suspending insolvency procedures. Despite being meant to shield pandemic-affected enterprises, this action has sparked worries about possible abuse and the weakening of the IBC's main goals. Recent cases like *Essar Steels* and *Binani Cements* show how practical the issues are and the requirement for judicial clarity is required to be brought to light. The decisions rendered by the Supreme Court in these cases highlight the significance of continuous legislative improvement to handle new problems. Overall, the study emphasises the necessity for ongoing reforms and close supervision to ensure the Code's efficient execution even though the IBC has drastically changed India's insolvency regime.

In his study **Puri L.D.**⁶, thoroughly examines India's Insolvency and Bankruptcy Code (IBC), emphasising the code's critical function as a revolutionary statutory structure intended to promote economic prosperity. The IBC was created to expedite the procedure of resolving insolvencies, which in turn would encourage entrepreneurial endeavours and guarantee the effective distribution of capital throughout the economy. The Corporate Insolvency Resolution Process (CIRP), which outlines the actions to be taken to handle organisational insolvencies, such as appointing an insolvency professional and forming a committee of creditors, is a major area of emphasis. He continues to discuss the difficulties in implementing the IBC, including the protracted problem of high non-performing assets (NPAs), the need for continuous revisions to improve the Code's efficacy, and bottlenecks in the resolution process. Notwithstanding these obstacles, the IBC has been acknowledged for having a good effect on the Indian economy, particularly in terms of boosting investor confidence and assisting in the organised closure of failed companies. This has helped to build a business climate that is more stable and enduring. In his concluding remarks, he highlights the imperative necessity of ongoing changes to rectify current issues and strengthen the IBC's function in advancing economic stability and expansion in India. As a result, the IBC is regarded as a major step forward in the establishment of a more effective insolvency system in the nation.

At the CAFRAL-organised conference in January, **Shaktikanta Das**⁷ gave the keynote lecture. He spoke about the Insolvency and Bankruptcy Code (IBC) and how it affects India's economy. Das highlights how crucial bankruptcy rules are for encouraging business acumen, recovering cash from ineffective businesses, and offering channels for debt settlement. The credit markets in India are dominated by banks, and a large proportion of stressed debt is frequently brought on by high leverage, inadequate underwriting, and foreign disruptions. With the enactment of the Insolvency and Bankruptcy Code (IBC), creditors are now in charge of resolving financially troubled companies instead of the legislative, executive, or judicial departments. This change empowers creditors to start the insolvency process and fosters responsibility and honesty. The RBI has played a significant role in the IBC's implementation, using it to address stressed assets of high value. Aiming to replace different debt restructuring strategies with a harmonised structure under

the Prudential Framework, the RBI is moving forward towards a principle-driven strategy for out-of-court recovery and has published directives for the initiation of corporate insolvency resolution process (CIRP) proceedings in certain cases. Positive results have been obtained from the execution of the IBC, including a notable increase in the percentage of corporate debtors admitted into CIRP, a notable recovery rate for creditors, and a change in debtor and creditor behaviour. There are still issues, though, like as the length of claim processing and resolution process delays. Das offers several solutions to these problems, including constructing a group insolvency procedure, confirming the role of financial creditors, reorienting the relationship between creditors and corporate debtors via pre-pack plans, and establishing a thriving secondary market for stressed assets. Das concludes by highlighting the necessity of enhancing the judicial system, utilising advancements in technology, maintaining stakeholder participation, and conducting frequent education initiatives to enhance the IBC ecosystem. The RBI is nevertheless dedicated to seeing the IBC framework evolve systematically and sustainably.

IBBI Chairman suggests that the 2016 Insolvency and Bankruptcy Code (IBC) transformed Indian business governance by prioritising struggling company recovery over dissolution. Through a Committee of Creditors (CoC), which has the authority to adopt resolution mechanisms comprising modifications to the company's operations structure, ownership, or management, it gives creditors the ability to move decisively. The IBC ensures that only workable resolution proposals from reliable parties are taken into consideration by promoting openness, independent directors, and minority interest preservation. It has effectively saved a great deal of businesses, protected organisational capital and give resuscitation businesses a competitive edge. The Code has evolved into a vital instrument for preserving company soundness and resolvability. It also strikes a balance between the interests of stakeholders and promotes sound governance to avert suffering.

Neavy⁸ suggests that in India, the Insolvency and Bankruptcy Code (IBC) has revolutionised the process of resolving corporate debt. By strengthening creditor rights, instituting time-bound processes, and advocating for a market-driven resolution system, the 2016 implementation of the Insolvency and Bankruptcy Code (IBC) has expedited the insolvency resolution process. It has moved the emphasis from company liquidations to their resurrection, protecting employment and economic value in the process. Because the policy mandates prompt information sharing and upholds equitable treatment for all parties involved, it has also increased accountability and openness. Notwithstanding early difficulties, the IBC has effectively handled several well-known business bankruptcies, establishing a standard for quick and easy debt settlement in India.

In their study **Saminathan et al.**⁹, present a comparative analysis of the liquidation procedures under the Companies Act and the Indian Insolvency and Bankruptcy Code (IBC), highlighting the notable enhancement in recovery rates observed under the IBC. It draws attention to how, in comparison to the prior system, realisation proceeds were higher under the IBC's corporate resolution structure. The paper explores procedural issues such as the length of time it takes to liquidate, how claims are settled, what kinds of creditors are involved, and the authority to liquidate. It also gives the historical background of India's bankruptcy legislation. The report examines several case studies to show how the IBC improves creditor recovery rates and encourages borrowers to practise financial responsibility. The paper's main focus is on how the IBC has improved India's business climate and financial stability.

This study examines how credit networks and company profitability are affected by the Insolvency and Bankruptcy Code (IBC), which was implemented in India in 2016. It concludes that IBC greatly lowered the cost of debt and upgraded the loan arrangements for struggling businesses, which boosted revenue and raised R&D spending. The study illustrates the transition from a debtor-in-control to a creditor-in-control regime using a Difference-in-Differences approach. This change helps troubled enterprises by reducing borrowing costs and encouraging long-term lending. The findings are solid and aid in our knowledge of how corporate behaviour and innovation are impacted by insolvency rules.

According to **Chawla & Dubey**¹⁰, the Insolvency and Bankruptcy Code (IBC) has aided corporate rehabilitation and debt recovery, fueling India's economic growth. Although the IBC has increased lenders' trust, there are still issues, such as bottlenecks and court orders. According to the article, enhancing the IBC is essential to realising all of India's economic potential.

5. Research Gap :

The significance of each study's findings, conclusions, and suggestions is valuable for academia and policy formulation. In simple terms, each finding holds significance and adds to our existing understanding. There are certain studies analysing the implications of IBC 2016 on the corporates but certain gaps still exist in comprehending its effects on companies. All the existing literature sheds light on the efficacy of the Code in India. They emphasise the Code's viable effects such as advancement in recovery rates and diminishing of the NPAs. Still, there exist some pitfalls in the comprehensive analysis of the continuing effects of IBC on corporate governance, financial well-being, and sustainability. Moreover, in spite of the comprehensive analysis of the effects of IBC on big corporations, there is not

enough study on how it affects small and medium-sized businesses (SMEs), which may face some complications undergoing insolvency. The significance of each study's findings, conclusions, and suggestions is valuable for academia and policy formulation. In simple terms, each finding holds significance and adds to our existing understanding. The other aspect that has been ignored is the effect of IBC on various sectors of industries like real estate, service, manufacturing etc. Additionally, the multiple paths in which the statute is utilised and the outcomes of these executions are not extensively analysed. These gaps emphasise the need for extensive research for a longer duration that contemplates the various viewpoints of corporations of different sectors, sizes and geographies along with the deeper impact of IBC on corporate governance and financial viability.

6. CONCLUSION:

The IBC of 2016 is a vital change in India's legal system, greatly altering the process of resolving insolvency. By introducing a more structured and efficient approach to insolvency resolution, the Code has played a crucial role in improving upon the deficiencies of past laws like the Companies Act and SICA. The implementation of the IBC has resulted in significant enhancements in corporate rehabilitation, debt recovery, and the general financial well-being of businesses, ultimately boosting investor trust and fostering economic stability.

Nevertheless, even with these accomplishments, the IBC faces its own set of challenges. Problems persist in fully realising the Code's potential, with lengthy resolution delays, especially at the NCLT, and the constant requirement for changes. Additionally, although the IBC has benefited big businesses, there is limited research on how it affects small and medium-sized enterprises (SMEs) and certain industries like real estate, services, and manufacturing. This discrepancy highlights the need for more studies to investigate the lasting effects of the IBC on various sectors of the economy.

The lack of research also applies to the thorough examination of how the IBC affects corporate governance, financial viability, and different results depending on how the law is implemented. To tackle these deficiencies, a detailed analysis of the impact of the IBC on various types of companies, industries, and regions is necessary. Future research should concentrate on these areas to offer a more comprehensive comprehension of the IBC's impact on shaping India's financial and corporate scenery.

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