

# A STUDY OF IMPACT OF IBC ON VARIOUS CLASS OF CREDITORS OF FINANCIALLY DISTRESSED COMPANIES IN CHEMICAL SECTOR

CA Sunit Shah, Dr. Dharmesh Shah

Practicing Chartered Accountant  
Ahmedabad

Professor  
N R Institute of Business Management,  
GLS Campus, Off C.G. Road,  
Ahmedabad, Gujarat, India.

## Abstract

*The Introduction of Insolvency & Bankruptcy Code has proved to be reformative for the operating companies in India. There is a significant effect of introduction of code on capital intensive industry such as chemical industry. The purpose of this research paper is to examine bifurcation of the admitted amount of claim of different class of creditors and difference in the distribution of recovered amount to them for the companies undergoing insolvency in chemical sector. We have selected leading companies in the chemical sector that have undergone insolvency proceedings for the purpose of our study. Using secondary data from the Insolvency and Bankruptcy Board of India (IBBI), National Company Law Tribunal (NCLT) records, and select case studies, the paper analyses the resolution outcomes and recovery rates for different categories of creditors, including secured financial creditors, unsecured financial creditors, and operational creditors. The complex environmental and technical challenges in the chemical sector have dampened investor interest and impacted asset valuation, thereby affecting the efficiency of the resolution process. The study concludes that although the IBC has improved insolvency resolution overall, there is a critical need for sector-specific modifications and better protection for operational creditors to ensure equitable and effective outcomes in the chemical industry.*

**Keywords:** Insolvency & Bankruptcy Code, Chemical sector, volatile market, creditors, claim admitted amount, recovery amount

## INTRODUCTION

India's journey toward a modern insolvency regime has been long and fragmented, marked by a patchwork of overlapping and ineffective laws. In capital-intensive industries like manufacturing, infrastructure, and chemicals, financial distress often leads to prolonged stagnation, value erosion, and loss of jobs. In economy like India, this problem may lead to major obstacle in the path of growth of economy. However, the introduction of the Insolvency & Bankruptcy Code, 2016 proved to be a watershed moment of the Indian Economy.

The Insolvency & Bankruptcy Code, 2016 was introduced with an aim to streamline and modernize the insolvency laws of the country. The multiple Indian insolvency laws such as Sick Industrial Companies Act (SICA), the Recovery of Debts Due to Banks and Financial Institutions Act (RDDBFI), the companies Act, the presidency towns insolvency act and others that were inconsistent and which were causing significant delays in realization of distress assets. The Insolvency & Bankruptcy Code, 2016 was aimed to introduce a uniform framework by merging existing laws and creation of institutional mechanisms including the Insolvency & Bankruptcy Board of India (IBBI), Adjudicating Authorities (NCLT & DRT) and a regulated class of professionals known as Insolvency Professionals. The Code gave a time bound and creditor in control procedure for realization of the financially distressed assets that can balance the interests of all the stakeholders of the company. A key feature of IBC was shift of control from debtors to the creditors as compare to foreign Insolvency laws.

After 8 years of introduction of the code, the code has resulted in speedy and efficient resolution of the financially distressed companies with major cases resulting in better recovery rates and faster outcome compared to earlier laws. The Code also contributed to India's rise in the World Bank's "Ease of Doing Business" rankings, particularly in the area of resolving insolvency. The code was successful in bringing credit discipline among the borrowers that has resulted in decrease of NPAs in the balancesheet of banks in later years of the code. The Code has made India more attractive and trust worthy destination of investment by improving the legal predictability and creditors's right in distress.

Like any other law, the Insolvency & Bankruptcy Code has faced criticism related to its implementation, legal proceedings and practical challenges. The code provides a time bound process of 180 days for completion of CIRP however in many cases have significantly exceeded these time limits, largely due to litigation, appeals, and limited judicial capacity. The IBC prioritizes financial creditors which has resulted in minimal or NIL recovery to the operation creditors in major insolvency cases. The Adjudicating Authorities suffers from insufficient capacity, inadequate infrastructure, and case backlogs which leads to delay in admission of the cases and also delays the final decisions that leads to uncertainty for the stakeholders involved in the process.

## RESEARCH QUESTION

**How have financial and operational creditors approached insolvency resolution in the chemical sector, and what has been their experience in terms of recovery?**

## LITERATURE REVIEW

**Tyagi, V., & Datta, M. (2017)** the lengthy and cumbersome restructuring process, coupled with ineffective insolvency procedures, strains the Indian credit system. Overlapping codes exacerbate delays in restructuring and make liquidation nearly impossible. In the digital era, the role of people is crucial for organizational survival, with leaders and managers needing strong digital capabilities. Digital technologies have revolutionized business planning and management, emphasizing real-time market intelligence and adaptive responses. Leaders must possess digital skills to anticipate trends, formulate strategies, and align products/services with customer needs.

**Ravi, A. (2018)** IBC helps each class of creditors to file suit against any stakeholders for recovery of dues. One of the changes observed is that there is reduced in the exercise of discretion by courts in granting extensions and in winding up decisions. Further, it is important that these code focuses on the process part and also that creditors should get their dues until the liquidation process gets completed.

**Manohar, S. (2020)** The difficulties and problems pertaining to the settlement of corporate insolvency in India during the pandemic were examined in this article. The Covid-19 pandemic's unique circumstances have also affected the insolvency regime. In order to relax the timeline during the lockdown period, Regulations 40 and 47A were added to the CIRP and Liquidation Regulations. The insolvency code ought to serve as a tool for financially troubled businesses, assisting them in improving their chances of survival in the near future.

**Woodard, J. D. (2021)** The 2016 Indian bankruptcy code aimed to improve the country's low World Bank Doing Business rankings. However, India's Resolving Insolvency rank has only moved from 121st to 108th since passage of the code. The World Bank undercounts India's strength in its insolvency framework index. Correctly scoring this could move India's Resolving Insolvency rank to 74th. So India is not getting full credit for its reforms based on the Doing Business methodology.

**Sharma, A. (2022)** The Indian economy's competitive corporate landscape benefits from recent legislations, such as the Insolvency and Bankruptcy Code (IBC) of 2016. This progressive law aims to enhance the efficiency of insolvency and bankruptcy proceedings, detecting financial distress early and offering time-bound resolutions. Success relies on the emergence of skilled insolvency professionals and adherence to time-bound processes in practice.

**Jain, M. (2022)** The Insolvency and Bankruptcy Code aims to keep viable businesses operational through processes to revive struggling enterprises and prevent premature closure. During COVID-19, it can defend financially distressed debtors, preserve firm value and enable debt restructuring. However, pandemic constraints make approved resolution plans difficult to implement, defeating the Code's objectives. Provisions like lower entry threshold and blanket ban on filing applications can adversely impact operational creditors of defaulting firms. Overall, insolvency law should be seen as a solution, not a problem, to revive viable firms, especially large companies affected by COVID-19 crisis.

**Chander, K. (2022)** The Insolvency and Bankruptcy Code 2016 introduced in India streamlines bankruptcy resolution within 180 days, extendable by 90 days, with distinct processes for companies and individuals. A comparative assessment using questionnaires, analysed through nonparametric tests, reveals varying attitudes among chartered accountants from Sirsa and Rohtak districts. Chartered accountants in Sirsa exhibit a more positive outlook on time efficiency, while those in Rohtak show greater favorability towards a single window clearance system. Moreover, Sirsa-based accountants perceive the process clarity more positively compared to their Rohtak counterparts.

## RESEARCH METHODOLOGY

This study is to evaluate the impact of Insolvency & Bankruptcy Code, 2016 on financially distressed companies of the chemical industry of India. The research design of this study is descriptive will assist the decision-maker in determining, evaluating, and selecting the best course of action to take in a given situation. Inconclusive is a causal research design that is used to obtain evidence of cause and effect relationships.

The methodology encompasses the secondary sources of data collection enabling a comprehensive understanding of the real-world implications and theoretical dimensions of the Code. Secondary data has been collected from the reports published by the Insolvency and Bankruptcy Board of India (IBBI), case studies, academic papers, and relevant government publications.

The present study has covered the companies operating in chemical sector that went into insolvency since the enactment of code. These companies were selected based on their involvement in insolvency proceedings, allowing for a detailed analysis of the practical impact of the IBC on different industries. The following companies have been covered under the scope of study for this paper: 1. JBF Petrochemicals Limited 2. Ezhil Chemicals Private Limited 3. Calyx Chemicals & Pharmaceuticals Limited 4. Vardhman Chemtech Limited 5. Kilburn Chemicals Limited.

## DATA ANALYSIS

### CHEMICAL SECTOR

Since the code in action, it has played a critical role in reshaping the corporate insolvency landscape across various capital intensive industrial sectors of the economy of India.

Among the this sectors, the Chemical Sector has a unique position. The Chemical Sector encompasses businesses engaged in the research, development, and manufacturing of a wide range of industrial, specialized, and various other chemical products. At the heart of the contemporary global economy, the chemical industry transforms raw materials such as oil, natural gas, air, water, metals, and minerals into a diverse array of industrial and consumer goods. The chemical industry in India serves as a vital catalyst for economic advancement while simultaneously serving as a linchpin in safeguarding food security, healthcare, and fostering innovation.

The Chemicals and petrochemicals sector in India currently stands at approximately \$178 billion in market size and is projected to expand to an estimated \$300 billion by the year 2025. The chemicals sector occupies a substantial role in the Indian economy, representing 7% of the GDP and contributing approximately 14% to the overall index of industrial production (IIP).

The chemical sector in India has experienced periods of financial distress due to factors such as raw material price volatility, regulatory compliance burdens, environmental risks, and cyclical demand fluctuations.

The data of top companies that underwent insolvency in chemical sectors was taken and the summarized version has been presented below in Table:

Particulars	Average amount of Claim Admitted	Average Amount recovered by the creditors
Secured Financial Creditors	13,83,35,00,164.12	4,48,03,70,669.80
Unsecured Financial Creditors	1,38,45,74,461.00	7,21,17,193.50
Operational creditors (other than Govt. Dues)	1,94,29,33,237.76	14,38,14,478.25
Operational Creditors (Govt. Dues)	1,08,79,54,029.75	1,17,90,793.33

The functioning in terms of creditor exposure in insolvency cases of the companies in Chemical sector can be studied from the above table. As observed from the above table, there is a significant difference in amount of claim admitted for Secured and Unsecured Financial Creditors but then also the claim admitted amount for unsecured financial creditors of Rs. 1,38,45,74,461 is quite high. This shows that the companies in chemical sector are dependent on both the secured and unsecured facilities due to high investment requirement for setting up and operating the units. However, the significant difference also shows the creditors tend more towards secured lending due to volatile nature of the chemical sector.

Likewise the claim admitted amount, there is a significant difference in recovery rates of the secured and unsecured financial creditors. The secured financial creditor's average recovery amount is Rs. 4,48,03,70,669.80 out of claim admitted amount of Rs. 13,83,35,00,164.12. This comes to the recovery rate of 32.38%. However, the unsecured financial creditor's average recovery amount is Rs. 7,21,17,193.50 out of claim admitted amount of Rs. 1,38,45,74,461.00. This comes to the recovery rate of 5.21%.

Another class of creditors i.e. Operational creditors including government dues has also significant amount of admitted claim of total Rs. 303,08,87,267.51. On bifurcation of the amount, the operational creditors other than government dues had admitted amount of Rs. 1,94,29,33,237.76 while government dues has admitted claim amount of Rs. 1,08,79,54,029.75. In reference to that, the operational creditors other than Government dues

has recovered amount of Rs. 14,38,14,478.25. This come to the recovery rate of 7.40%. The Government dues has recovered amount of Rs. 1,17,90,793.33. This come to the recovery rate of 1.08%.

This shows dual heavy burden points towards a sector where both commercial vendors and government dues play major roles in financial stress situations. The significant amount of operational creditors other than government is result of substantial raw material and supply chain debts. The environmental regulations, licensing, and compliance costs are the major attributes to the heavy claim admitted amount of government dues in chemical sector.

## CONCLUSION

The Code has been significant in bringing transformative reforms in the insolvency regime of the country. It has lead to better recoveries to the creditors of the companies. however, the recoveries are been uneven in the different classes of the creditors of the company. This again proves the supremacy of the secured creditors in the insolvency process as compare to all the other class of creditors.

This disparity highlights a key structural challenge: the IBC framework, while effective in protecting secured interests and enabling time-bound processes, often fails to adequately safeguard the interests of trade creditors and suppliers in specialized industries like chemicals. Furthermore, the presence of environmental liabilities and compliance obligations in this sector reduces bidder interest and depresses asset valuations, further affecting resolution efficiency.

To conclude, while the IBC has positively transformed insolvency resolution mechanisms in India, sector-specific reforms, better representation of operational creditors in the Committee of Creditors (CoC), and targeted policies for asset-intensive industries are necessary to ensure equitable outcomes across all stakeholders in the chemical sector. A more balanced approach is essential to maintain supplier confidence and sustain long-term industry health.

## REFERENCES

- [1] Vivek Tyagi and Manipadma Datta (2017), Regulatory Framework of Corporate Insolvency in India: The Road Ahead
- [2] Aparna Ravi (2018). The Indian Insolvency Regime in Practice- An Analysis of Insolvency and Debt Recovery Proceedings, IGIDR, WP- 2015-027, 25
- [3] Woodard, J. D. (2020). Racing to Resolution: A Preliminary Study of India's New Bankruptcy Code. Geo. Wash. Int'l L. Rev., 52, 393.
- [4] Ashok Sharma (2022), Emerging Value of the Insolvency and Bankruptcy Code, 2016
- [5] Jain, M. (2022). Indian Insolvency and Bankruptcy Code, 2016 in the era of Covid-19. Justice and Law Bulletin, 1(2), 61-67.
- [6] Chander, K. (2022). Chartered accountants' perception in Haryana towards insolvency and bankruptcy code, 2016.
- [7] Shruthi Manohar (2020). An Analysis of Corporate Insolvency Resolution in India in the Wake of Covid-19 Crisis, Indian Journals, Volume 2, Issue 1, 107-112