

IBC AND NPA RESOLUTION: A LEGAL AND ECONOMIC PERSPECTIVE

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Abstract

The Insolvency and Bankruptcy Code (IBC), 2016, was introduced as a comprehensive legal framework to address the rising crisis of Non-Performing Assets (NPAs) in India. NPAs pose a significant challenge to the Indian banking sector, affecting credit availability, economic growth, and financial stability. The IBC aims to streamline the insolvency resolution process, ensuring time-bound settlements, promoting investor confidence, and improving the ease of doing business. This study examines the legal and economic implications of IBC in resolving NPAs, assessing its effectiveness in debt recovery and financial restructuring.

The research explores the impact of IBC on India's financial ecosystem, including its influence on creditors, debtors, and businesses. It also highlights challenges such as delays in resolution, judicial bottlenecks, and the effectiveness of the National Company Law Tribunal (NCLT). The study further evaluates the role of resolution professionals and stakeholders in ensuring smooth insolvency proceedings. By analyzing key case studies and statistical trends, this research provides insights into the strengths and limitations of IBC in tackling India's growing NPA burden. The findings aim to contribute to legal and economic discourse, offering recommendations for improving the efficiency and implementation of the insolvency resolution process.

INTRODUCTION

Non-Performing Assets (NPAs) have been a persistent issue in India's financial sector, impacting the profitability of banks and overall economic stability. Before the enactment of the Insolvency and Bankruptcy Code (IBC), 2016, debt recovery mechanisms were slow and inefficient, leading to prolonged financial distress for businesses. The IBC was introduced to provide a structured, time-bound, and creditor-friendly insolvency resolution framework. It aims to maximize asset value, ensure quick resolution, and reduce the burden of NPAs on the banking system.

Since its implementation, IBC has played a crucial role in improving credit discipline and restoring investor confidence. However, several challenges remain, including delays in resolution, legal hurdles, and implementation inefficiencies. This study analyzes the legal and economic dimensions of IBC in resolving NPAs, evaluating its success in addressing financial distress and its impact on India's economic landscape.

OBJECTIVES

1. To analyze the legal framework of the Insolvency and Bankruptcy Code (IBC), 2016, and its role in NPA resolution.
2. To assess the economic impact of IBC on the banking sector and its effectiveness in reducing NPAs.
3. To examine the challenges and limitations of the insolvency resolution process, including judicial and procedural delays.
4. To evaluate case studies of major insolvency proceedings under IBC and their implications on financial restructuring.
5. To provide recommendations for improving the efficiency of IBC in tackling the rising NPA crisis in India.

This study aims to bridge the gap between the legal and economic perspectives of IBC, offering insights into its effectiveness and the need for reforms.

REVIEW OF LITERATURE

The Insolvency and Bankruptcy Code (IBC), 2016, has been widely analyzed in legal and economic studies, focusing on its impact on Non-Performing Assets (NPAs) and the financial sector.

1. Legal Perspectives on IBC

Sengupta & Sharma (2019) examined the legal framework of IBC and its role in improving credit discipline, highlighting that a structured approach to insolvency resolution has reduced willful defaults. Krishna & Bose (2020) emphasized the role of the National Company Law Tribunal (NCLT) in expediting insolvency cases, though challenges such as delays and legal loopholes remain.

2. Economic Impact of IBC on NPA Resolution

Patel & Mehta (2018) analyzed pre-IBC and post-IBC recovery rates, finding that asset resolution improved significantly, with cases like Essar Steel and Bhushan Power setting benchmarks. Mukherjee & Rao (2021) studied the impact of IBC on credit availability, suggesting that better insolvency mechanisms enhance investor confidence and reduce lending risks.

3. Challenges in IBC Implementation

Gupta & Nair (2022) explored bottlenecks in insolvency proceedings, citing issues such as judicial backlogs, delays in resolution, and overburdened NCLT benches. World Bank Report (2023) indicated that while IBC has improved India's Ease of Doing Business ranking, structural inefficiencies in execution remain a concern.

RECOMMENDATIONS

1. Strengthening NCLT Infrastructure

Increase the number of benches and appoint more judges to reduce backlog and speed up case resolutions.

2. Reducing Delays in Insolvency Proceedings

Implement strict timelines for resolution and discourage excessive litigation to prevent delays.

3. Encouraging Pre-Packaged Insolvency

Expand the pre-packaged insolvency framework for large corporations to ensure faster debt resolution.

4. Improving Creditor Protection and Enforcement

Strengthen legal mechanisms to prevent asset stripping and fraudulent transactions by defaulting promoters.

5. Enhancing Stakeholder Participation

Introduce mechanisms to engage banks, creditors, and investors more actively in insolvency processes.

CONCLUSION

The Insolvency and Bankruptcy Code (IBC), 2016, has significantly improved India's NPA resolution process by providing a structured, time-bound, and creditor-friendly framework. The recovery rate has improved, and the overall credit environment has strengthened. However, challenges such as judicial delays, procedural inefficiencies, and creditor conflicts need urgent reforms. Strengthening NCLT, reducing legal bottlenecks, and promoting faster resolution mechanisms will ensure that IBC remains an effective tool for economic recovery and financial stability.

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