Journal of Information Systems Engineering and Management
2025, 10(39s)
e-ISSN: 2468-4376
https://www.jisem-journal.com/ **Research Article**

From Distress to Resolution: A Study of RBI-12 Cases Under the IBC, 2016

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ARTICLE INFO

Received:16 Dec 2024

Revised: 17 Feb 2025

Accepted:25 Feb 2025

ABSTRACT

The Insolvency and Bankruptcy Code (IBC), 2016, was introduced to streamline insolvency resolution in India, replacing ineffective earlier mechanisms such as the Companies Act (1956), SICA (1985), RDDBFI Act (1993), and SARFAESI Act (2002). These frameworks failed to provide timely resolutions and were largely restricted to banks and financial institutions, leaving other creditors dependent on an overburdened judicial system. The Reserve Bank of India (RBI) attempted to improve recovery rates through schemes like Corporate Debt Restructuring (CDR) and Strategic Debt Restructuring (SDR), but these were inadequate. With the enactment of the IBC, the Banking Regulation Act (1949) was amended to empower the RBI to direct banks to initiate insolvency proceedings against defaulters, leading to the launch of the Corporate Insolvency Resolution Process (CIRP).

The RBI initially identified 12 major stressed accounts, known as the 'RBI-12' or 'Dirty Dozen,' accounting for 25% of total banking sector NPAs, followed by an additional list of 28 distressed accounts for CIRP proceedings. The study evaluates the effectiveness of the IBC by comparing NPA recovery rates of Scheduled Commercial Banks (SCBs) under the IBC with previous resolution mechanisms. Findings indicate that the IBC has significantly improved recovery rates and reduced the average resolution time from 4.3 years to 394 days, though delays persist in some cases. The successful resolution of Essar Steel under CIRP led to positive stock market reactions, reflecting increased investor confidence due to strengthened creditor protections. Moreover, India's improved Ease of Doing Business ranking has enhanced its attractiveness for investment. However, challenges remain, such as significant haircuts for lenders, impacting their financial stability, and the shift of decision-making power from corporate managers to the Committee of Creditors, potentially altering corporate governance dynamics.

Keywords: Non-Performing Assets, Lok Adalats, DRTs, SARFAESI Act, IBC 2016, Scheduled Commercial Banks.

INTRODUCTION

India had a plethora of resolution mechanisms for several decades prior to the enactment of the IBC, 2016. Initially, the major two such mechanisms were winding up under Companies Act, 1956 and rehabilitation under Sick Industrial Companies Act, 1985 (SICA). The recovery rates and the resolution time under these two techniques were not praiseworthy. Due to this, the effected parties reduced the usage of these mechanisms for resolving their stressed assets issue. Later in 1993 and 2002 respectively, Recovery of Debts due to Banks and Financial Institutions Act, 1993 (RDDBFI Act) and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, were introduced. However, only a particular class of creditors, banks, and certain Financial Institutions (FIs) may access these regulations. The overworked civil court system was the sole avenue for collection available to other

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creditors. Since the recovery rates were not very attractive for the above mechanisms, RBI set up various schemes like Corporate Debt Restructuring (CDR) and Strategic Debt Restructuring (SDR) enabling banks to act jointly on strained companies' loan accounts. Till the enactment of IBC, India did not have a credible and dependable debt recovery law through which the stressed assets problem could be resolved for the banks and the corporates.

The Insolvency and Bankruptcy Code (IBC), 2016 was established by an act of Parliament and went into effect in January 2017 as one of the newest legal tools to address financial issues and business stress in a timely way. Because the effectiveness of earlier rehabilitation techniques was lacking, and IBC was a new legislation, it was unclear if it would be able to address the escalating issue of business stress that had accumulated over decades. An ecosystem is established under the Insolvency and Bankruptcy Code, 2016 (IBC/Code) to maximize the value of the corporate debtor's (CD) assets and balance the interests of all stakeholders in a timely way (IBBI Newsletter, July-Sep,2024).

With the introduction of IBC, 2016, the Banking Regulation Act, 1949, was amended by the Government of India, to empower RBI that can direct banks to initiate the proceedings of IBC against the firms that had defaulted on loans. As a result, banks began submitting IBC applications to the National Company Law Tribunal (NCLT), the insolvency court, in July and August 2017. Every case was accepted into the NCLT, and CIRP was launched in response to these.

Further, RBI identified and floated the first list of 12 such stressed accounts which reported to approximately 25 percent of the total NPAs of the banking sector. These 12 large accounts were thereafter called as 'RBI-12' cases or 'Dirty Dozens' which were highly complicated in comparison to other cases referred for IBC proceedings at that time. These were identified as large, stressed accounts way back in 2013-2014, and any resolution initiative that had begun in the past using the previous regimes were not fruitful. Additionally, the RBI released the list of 28 bank strained accounts to be processed through the CIRP under the rule in August 2017.

In this paper, our objective is to compare the recovery rates of NPAs of SCBs through IBC and erstwhile regimes and to analyse the RBI-12 cases to comment how far IBC has been successful in resolving the stressed accounts of the banks in terms of recovery rate and time taken.

This paper is further divided into sections. Section two will discuss about the Literature Review, section three will discuss about the methodology and data sources, section four will compare IBC and erstwhile recovery mechanisms of NPAs of SCBs, followed by an evaluation of progress of CIRP for RBI-12 cases, the last section will discuss about the findings and conclusion of the study.

REVIEW OF LITERATURE

There were various stressed asset resolution mechanisms in India prior to the implementation of IBC in 2016. The previous insolvency laws were plagued by numerous loopholes and conflicting provisions, failing to specify a time-bound resolution process or empower operational creditors and promote entrepreneurial growth (*Anant & Mishra, 2019)*. These regimes were criticised for broadly three reasons, viz, low recovery rates, prolonged resolution time and lastly insufficiently powered lenders to recover their defaults. With the implementation of IBC in 2016, the government has tried to overcome these problems through time-bound resolution system and empowered creditors over corporate debtors *(Athota, 2020 & Burman, 2021)*.

In contrast to SICA,1985, where the recovery process had an impact on net worth by degrading it, IBC emerges as a mechanism which works upon securing the net worth of the defaulting firm by taking the lesser time for the resolution. Under DRT/SARFAESI, the intervention by the borrowers or promoters was more than required unlike IBC, where the intervention is minimal. This uncalled interference by the promoters or borrowers unnecessarily delayed the whole resolution process *(Assocham, 2017)*.

While IBC has tried to keep up with it one of the objectives which is the timely resolution of the cases with no or minimal haircuts to the lenders. Additionally, IBC aimed to promote entrepreneurship and financing availability for revitalization. IBC also endeavours for the corporate debtors to reorganise their company affairs and start running their businesses smoothly to avoid liquidation which is sure to follow upon failure of the former *(Assocham, 2017 & IBBI Handbook, 2020)*.

Under an examination done for evaluating the efficiency of various recovery mechanisms, including the Debt Recovery Tribunal (DRT), Lok Adalat, and the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act 2002), by assessing the amount of NPAs recovered between 2005 and 2017, it was revealed that an increase in the number of DRT centres led to improved NPA recovery (*Alamelumangai & Sudha, 2019).*

Like the previous evaluations performed on erstwhile regimes, IBC was also not spared from undergoing performance evaluation by many authors. *Ahmed (2021),* in evaluating the effectiveness of the IBC four years after its implementation, concludes that the insolvency framework has seen significant progress. Among the various recovery mechanisms available to creditors, the IBC boasts the highest recovery rate at 45.5%. Additionally, India's ranking in resolving insolvency has improved, contributing to a better ease of doing business. The Code has had a positive influence on the insolvency resolution process and is expected to continue benefiting the banking sector and, consequently, the Indian economy.

Further, the IBC was evaluated on three parameters namely, by analysing data on non-performing assets, recovery rates, and resolution timelines by *Abhirami and Rahul (2022).* Their study evaluated the code's influence on corporate governance, business practices, and the capital market. The findings suggest that the IBC has enhanced recovery rates, optimized the resolution process for non-performing assets, and lowered resolution costs compared to earlier frameworks.

The IBC established a structured framework for insolvency resolution, effectively streamlining the process and reducing both the time and complexity involved in addressing distressed assets. By imposing strict time limits—initially set at 180 days, with a possible 90-day extension under certain conditions, and later extended to 330 days—it curtails prolonged litigation and ensures a more efficient resolution process (*Hishikar, 2020).*

The code marked a significant transition from the earlier debtor-in-possession model to a system where both creditors and debtors operate within a framework that ensures fairness and preserves company value *(Athota, 2020).*

While evaluating the performance of the code in RBI-12 cases, it has been found that the firms undergoing resolution under IBC, have shown better results in terms of turnover, profitability, and liquidity. These firms have also been able to meet the performance goals and secure financing. This shows that the participants of this code have faith in the CIRP process *(Mohan & Gopalkrishnan, 2023).*

Traditionally, promoters are considered the owners of an enterprise. However, in the early stages of the CIRP, many promoters sought to regain control of their companies during the resolution process, creating obstacles for the Interim Resolution Professional (IRP) and Resolution Professional (RP) in executing the CIRP smoothly. To address this issue, Section 29A was added to the Insolvency and Bankruptcy Code through an amendment on November 23, 2017, in case of Essar Steel India Limited (ESIL) for the first time ever. This provision barred corporate debtors' promoters from submitting resolution plans and established specific eligibility criteria for those seeking to propose such plans *(Indian Institute of Insolvency Professionals of ICAI (IIIPI) New Delhi, 2021).*

Further, it was seen that, in case of Iron and Steel sector, which is one of the most stressed sectors in India, IBC had a positive impact of in terms of debt recovery, however, the time considered for the evaluation was too short i.e. two years (Chandani et al., 2018). In particular, the case of Essar Steel—the first major bankruptcy under the new law, the two key events of this case were analysed. Essar Steel's entry into the IBC process and the appointment of a new Interim Resolution Professional (IRP). The findings indicated significant abnormal returns, suggesting that investors viewed the strengthening of creditors' rights positively and regained confidence in affected firms *(Guntur and Abidi, 2023).*

Although the code has shown many positive sides, but it has been criticized for many reasons as well. One of the downsides of the code is the greater creditor control which makes it difficult for companies to raise debt, potentially limiting investment opportunities for firms reliant on external capital *(Guntur and Abidi, 2023).* Secondly, the code is criticized for excessive government intervention in the recruitment, dismissal, and supervision of insolvency professionals through empowering the NCLT over CoCs prompting the introduction of Section 31(1) in the Code. This

Journal of Information Systems Engineering and Management
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e-ISSN: 2468-4376
https://www.jisem-journal.com/ **Research Article**

amendment strengthened the role of the National Company Law Tribunal (NCLT) by granting it greater oversight over the CoC's decisions, leading to occasional conflicts between the judiciary and the CoC in certain cases.

Thirdly, the change in approach from Manager-Driven Model to the Manager-Displacing Model, may lead creditors to view the insolvency procedure as a liquidated-oriented regime due to the significant provisioning of non-performing assets (NPA) by banks given the possibility of expenses of filing for bankruptcy is likely to outweigh the benefits from it (*Deb & Dubey, 2021)*. Fourthly, challenges with obtaining approvals from government agencies persist within the code. The existing infrastructure remains inadequate to manage numerous high-value bankruptcy cases effectively given the less specialized Resolution Professionals (RPs) whose efficiency could be improved through proper training *(Mohan & Gopalkrishnan, 2023 & Anant and Mishra, 2019)*.

Fifthly, the code has faced criticism for prioritizing resolution over liquidation, as seen in the case of Alok Industries. Here, the required 75% voting threshold was not achieved within the 270-day CoC timeline, making liquidation the only possible outcome. However, the IBC intervened by introducing the 2018 ordinance, which lowered the voting requirement to 66%, enabling the resolution plan to proceed. Had the case been strictly decided within the statutory timeframe, liquidation would have been inevitable. A similar approach was observed in the ABG Shipyard case, where the CoC extended the resolution process beyond the 270-day limit by issuing a fresh Expression of Interest (EOI), allowing the resolution applicant to revise and resubmit the resolution plan. These examples indicate a clear policy inclination toward resolution over liquidation *(Felman et al., 2020)*.

RESEARCH METHODOLOGY

For the present study, we will use secondary data. The data used is published by the Reserve Bank of India. The time duration is 6 years starting from 2018 to 2023. In the study, firstly a comparison between the erstwhile regimes and IBC for the recovery of NPAs of SCBs will be performed to assess the recovery rates under each regime. Secondly, with the help of the reports published by IBBI and ICRA, we will assess the progress of CIRP of RBI-12 cases.

COMPARISON BETWEEN IBC AND ERSTWHILE REGIMES FOR RECOVERY OF NPAS OF SCBS

Table 1: Recovery Percentage of NPAs of SCBs through various channels

Year	Lok Adalats	DRTs	SARFAESI	IBC
2018	4	5	32	50
2019	5	4	15	46
2020	6	5	17	46
2021	4	4	41	20
2022	2	17	22	24
2023	2	9	28	40

Source: Report on trend and progress of banking in India, RBI

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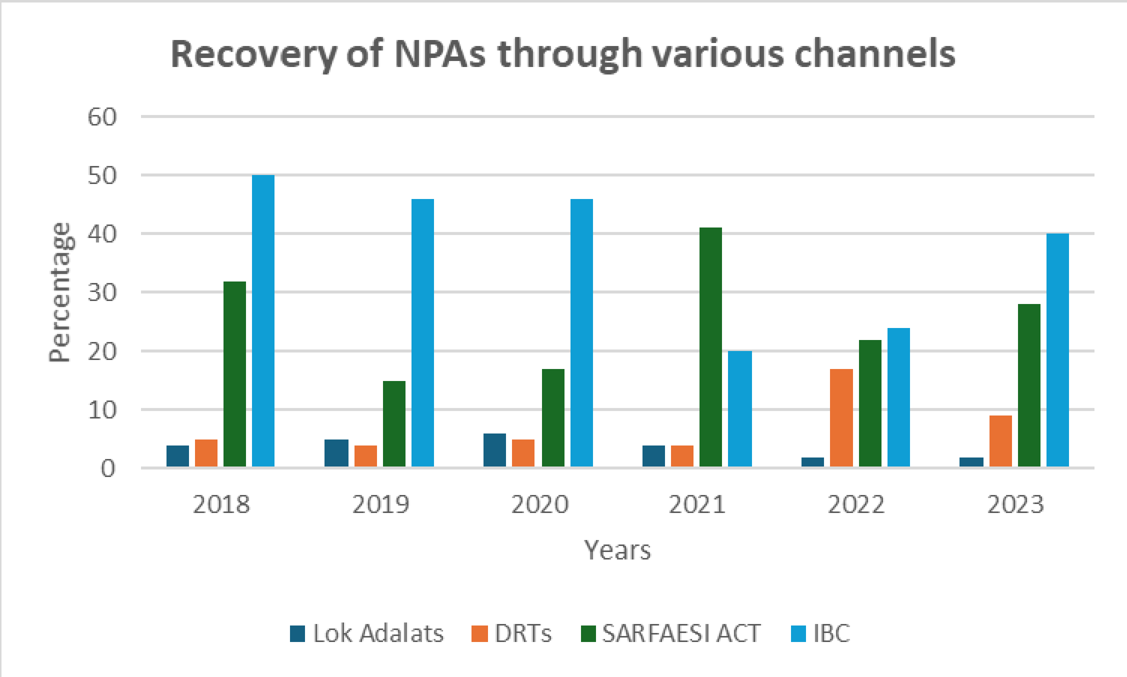

Figure 1

Source: Based on table 1

The above table and bar diagram describe the percentage of recovery through different channels. IBC is the most successful method, according to an examination of NPA recovery rates across several resolution channels from 2018 to 2023. Recovery rates peaked at 50% in 2018 and 40% in 2023, despite a steep fall in 2021 (20%), showing difficulties with timely resolution. With recoveries ranging from 15% to 41%, SARFAESI has demonstrated modest but erratic efficacy, reaching a peak in 2021. Although DRTs were mostly ineffective, they did show volatility, with a high recovery of 17% in 2022. With recoveries ranging from 2% to 6%, Lok Adalats continued to be the weakest, which is indicative of their limited influence on significant non-performing assets. We can see from all the years; that maximum recovery is done by IBC followed by the SARFAESI Act except in 2021 where maximum recovery is done by the SARFAESI Act. One of the reasons was the suspension of initiation of fresh proceedings under the IBC for a year till March 2021 and defaults related to COVID-19 were also excluded from the IBC (Burman, 2021; RBI, 2021).

PROGRESS EVALUATION OF CIRP OF RBI-12

The names of the firms selected as RBI-12 were ABG Shipyard, Alok Industries, Amtek Auto, Bhushan power and steel, Bhushan steel, Electrosteel steels, Era Infra Engg, Essar steel, Jaypee Infratech, Jyoti structures, Lanco Infratech, Monnet Ispat. These firms had the major NPAs of the banks which can be seen from the below table.

Table 2: Percentage of Bank Borrowings in RBI-12

Sr. No.	Corporate Debtor	Borrowing (Rs. crore)	Bank Borrowing (% of Borr)	Status of CIRP
1	ABG Shipyard	7,420	83	Ordered into liquidation
2	Alok Industries	19,929	75	Completed; acquired by joint venture (JV) between Reliance Industries and JM Group
3	Amtek Auto	7,602	46	NCLT approval received in July 2020; subsequent litigation continuing

Journal of Information Systems Engineering and Management
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Sr. No.	Corporate Debtor	Borrowing (Rs. crore)	Bank Borrowing (% of Borr)	Status of CIRP
4	Bhushan power and steel	35,465	76	Completed; acquired by JSW Steel
5	Bhushan steel	43,405	68	Completed; acquired by Tata Steel
6	Electrosteel steels	10,226	75	Completed; acquired by Vedanta
7	Era Infra Engg	7,412	66	Ongoing
8	Essar steel	34,112	69	Completed; acquired by ArcelorMittal
9	Jaypee Infratech	9,046	2	NCLT approval received in March 2020; litigation continuing in Supreme Court
10	Jyoti structures	2,900	96	Completed; acquired by HNIs
11	Lanco infratech	7,244	82	Ordered into liquidation
12	Monnet Ispat	8,042	59	Completed; acquired by JV between JSW Steel and Aion Investments

Source: Felmal et al. 2020, Ch-An Early Examination of the RBI–12 Cases Under the IBC, table-6

The Table 2 above depicts the borrowing percentage of these firms from banks. The bulk of the time, the banks' borrowing percentage is quite high, ranging from 50 to 96 percent. It is less than 50%, or 46% in the case of Amtek Auto and a pitiful 2% in the case of Jaypee Infra. It is evident from the above table how much of the banking sector's non-performing assets (NPAs) these defaults are contributing to if the borrowing percentage is so high. This data intrigues us to look at the performance of CIRP in case of RBI-12 so as to know how far IBC has been able to recover the outstanding debts of the banks.

Table 3: Progress of CIRPs for RBI-12 cases list of large defaulting companies

Sr. No.	Corporate Debtor	Name of the Applicant Bank	Financial creditor claims (Rs. billion)	Claims realised (Rs. billion)	Recovery %	Haircut %	CIRP duration	Status
1	ABG Shipyard Limited	ICICI	181.3	NA	NA	NA	633 days	Ordered into liquidation
2	Alok Industries Limited	SBI	295.2	50.5	17%	83%	598 days	Completed; acquired by joint venture (JV) between Reliance Industries and JM Group
3	Alok Industries Limited	Corporation Bank	126.4	26.1	21%	79%	1,081 days ^	NCLT approval received in July 2020; subsequent litigation continuing
4	Bhushan Power & Steel Limited	PNB	471.6	193.5	41%	59%	652 days*	Completed; acquired by JSW Steel
5	Bhushan Steel Limited	SBI	560.2	355.7	63%	37%	293 days	Completed; acquired by Tata Steel
6	Electrosteel Steels Limited	SBI	131.8	53.2	40%	60%	270 days	Completed; acquired by Vedanta

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Sr. No.	Corporate Debtor	Name of the Applicant Bank	Financial creditor claims (Rs. billion)	Claims realised (Rs. billion)	Recovery %	Haircut %	CIRP duration	Status
7	Era Infra Engineering Limited	UBI	122.1	Pending	Pending	Pending	1,081days (Ongoing)	Ongoing
8	Essar Steel India Limited	SBI and SCB	494.7	410.2	83%	17%	583 days	Completed; acquired by ArcelorMittal
9	Jaypee Infratech Limited	IDBI	231.8	232.2	100%	0%	937 days	NCLT approval received in March 2020; litigation continuing in Supreme Court
10	Jyoti Structures Limited	SBI	73.6	36.9	50%	50%	631 days	Completed; acquired by HNIs
11	Lanco Infratech Limited	IDBI	452.6	0.0	100%	0.0	385 days	Ordered into liquidation
12	Monnet Ispat & Energy Limited	SBI	110.1	28.9	26%	74%	371 days	Completed; acquired by JV between JSW Steel and Aion Investments

Source: IBBI, ICRA research

* As per the approval of resolution plan by NCLT; however, due to subsequent litigation, deal closure happened only in March 2021 (after additional 22 months) ^ CIRP was initially completed in 366 days but was subsequently brought back to NCLT; 2nd round of CIRP process took another ~2 years and implementation is still pending

The above Table 3 shows the progress made by IBC under the CIRP process of RBI-12 cases. As banks, being, one of the most affected financial creditors, has initiated the process of petition filing, which can be seen under column “Name of the Applicant Bank”. SBI has applied to start the CIRP under the code in six of the twelve cases. Looking at the claim submitted, and amount realized, we can say that SBI as recovered around 56% approx. Seven of the twelve claims that were brought were successfully settled and purchased by businesses. NCLT ruled the liquidation of two cases, while the settlement of the other three is still ongoing. Bhushan Steel Limited, Essar Steel India Limited, and Jyoti Structures Limited all recovered at least 50% of their initial recovery rate. Nonetheless, the recovery rates for Bhushan Power & Steel Limited and Electrosteel Steels Limited are 40% and 41%, respectively. The recovery rate was less than 30% for Alok Industries Limited and Monnet Ispat & Energy Limited. The cases when the recovery rate was low, suggest that the lenders would have taken a significant haircut, and vice versa. As a result, we can state that IBC assisted in the resolution of most stressed accounts.

FINDINGS AND CONCLUSION

The primary goal of the IBC was to ensure the timely resolution of corporate debtors, with a stipulated period of 180 days under Section 12(1), extendable by an additional 90 days under Section 12(3), totalling a maximum of 270 days. However, this extension was intended to be an exception rather than a common practice. But in reality, delays have become prevalent, with resolution timelines significantly exceeding the prescribed limit. In several cases, such as ABG Shipyard Limited, Jyoti Structures Limited, and Bhushan Power & Steel Limited, the resolution process has extended beyond 600 days, ultimately undermining the fundamental objective of the Code.

The code is undoubtedly the one where both the creditors and the debtors operate within a framework of equity and fairness to all stakeholders to preserve the value of the Company. However, this shift from Debtor-in-possession model to empowering creditors is criticised by few authors and is yet to be analysed with a longer time in place.

Since the enactment of the IBC, the Committee of Creditors (CoC) had the authority to make crucial decisions, including appointing the Interim Resolution Professional (IRP) or Resolution Professional (RP), issuing the information memorandum, and approving resolution plans. However, in the Essar Steel case, the Supreme Court overruled the CoC's decision, prompting the introduction of Section 31(1) in the Code. This amendment strengthened the role of the National Company Law Tribunal (NCLT) by granting it greater oversight over the CoC's decisions, leading to occasional conflicts between the judiciary and the CoC in certain cases.

IBC has been appreciated and preferred because of multiple reasons:

1. It offers a single window framework which has increased openness and reduced overregulation or rigid compliance with administrative procedures and formal requirements.
2. IBC has surely achieved its timely resolution objective with an average resolution period falling from 4.3 years to 394 days, however, we can see delays in certain cases.
3. The recovery rates have enhanced through IBC proceedings as compared to previous regimes.
4. Significantly positive abnormal returns in the stock market, reflecting increased investor confidence due to strengthened creditor protections can be seen with the initiation of CIRP in case of Essar Steel.
5. IBC has made India an attractive juncture for drawing capital and investment, with the improved ranking globally for Ease of Doing Business.

The IBC has been criticized by authors due to the following reasons:

1. The code is said to be favouring resolution over liquidation, as evident in the case of Alok Industries. In this instance, the required 75% voting threshold was not met within the 270-day CoC timeline, leaving liquidation as the only viable option. However, the IBC intervened by passing the 2018 ordinance, reducing the voting requirement to 66% to facilitate the resolution plan. Had the case been adjudicated strictly within the statutory timeframe, the company would have been liquidated. Similarly, in the case of ABG Shipyard, the CoC extended the resolution process beyond the 270-day limit by issuing a fresh Expression of Interest (EOI), allowing the resolution applicant to revise and submit a new resolution plan. These instances suggest that policymakers exhibited a clear preference for resolution over liquidation.
2. Further under IBC, lenders have faced huge haircuts in some cases which means the lenders have got back only a part of their loan amount and not the full amount. This impacts the financial soundness of the lender firm.
3. Unlike previous regimes, IBC through its Committee of Creditors take charge of the corporate debtor which may result in present managers losing its decision-making power.
4. Despite the IBC's apparent effectiveness, its execution faces challenges, including frequent adjournments and delays caused by the National Company Law Tribunal's (NCLT) extensive backlog. As crucial institutions for IBC processes, NCLTs often struggle with shortages of personnel and infrastructure, leading to further delays and pending cases. This poses a significant risk, and if not addressed in a timely manner, the situation may revert to the inefficiencies of the previous regimes.
5. The process does not conclude once the National Company Law Tribunal (NCLT) approves a resolution applicant to implement the resolution plan. Issues can still arise, such as defaults by the resolution applicant, as seen in the case of Amtek Auto. Here, Liberty House, the successful bidder, failed to fulfil its commitments under the resolution plan. As a result, proceedings were initiated against Liberty House under Section 74(3) of the IBC, though the outcome remains pending.

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