



CORPORATE INSOLVENCY AND RESOLUTION MECHANISM IN INDIA: A STUDY WITH SPECIAL REFERENCE TO TAMIL NADU COMPANIES

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Abstract

The Insolvency and Bankruptcy Code, 2016 was introduced to establish a unified and time-bound framework for resolving corporate insolvency in India. This study analyses corporate insolvency and resolution laws with special reference to selected insolvency companies in Tamil Nadu. The research focuses on assessing the level of awareness of insolvency laws among professionals and identifying the key reasons for the dissolution of non-viable insolvent companies. The study is based on both primary and secondary data. Primary data were collected from 452 respondents belonging to three Insolvency Professional Agencies through a structured questionnaire using proportionate stratified random sampling. Analytical tools such as the Henry Garrett ranking method and weighted mean score analysis were employed. The findings reveal that respondents possess a relatively high level of awareness of the IBC, particularly regarding its key provisions. Poor financial management, continuous operating losses, and inadequate cash flow were identified as the major reasons for corporate dissolution. The study highlights the need for professional training, stronger financial discipline, and improved institutional support to enhance the effectiveness of the insolvency resolution framework.

Keywords: *IBC 2016; Corporate Insolvency; Liquidation Process; Insolvency Resolution process; Economic Impact.*

Introduction

The Insolvency and Bankruptcy Code (IBC), 2016 was enacted to reform the insolvency and bankruptcy framework in India. In August 2014, the Ministry of Finance constituted the Bankruptcy Law Reforms Committee (BLRC) under the chairmanship of Dr.T.K. Vishwanathan former Union Law Secretary. The committee was entrusted with the task of drafting a comprehensive insolvency law to address the shortcomings of the earlier legal framework. Prior to the introduction of the IBC, India followed multiple insolvency laws which were fragmented, slow, and ineffective. Rising levels of stressed assets and non-performing assets created serious challenges for banks and corporate entities. The existing resolution mechanisms failed to provide timely recovery and often led to erosion of asset value. In this background, the Insolvency and Bankruptcy Code was introduced on 28 May 2016 to provide a unified, transparent, and time-bound insolvency resolution process.

The IBC aims to promote early identification of financial distress, maximize the value of assets, and balance the interests of all stakeholders. Insolvency Professionals play a central role under the Code by managing the corporate insolvency resolution process, conducting resolution proceedings, and facilitating either revival or liquidation of distressed companies. The performance and effectiveness of the insolvency framework largely depend on the functioning of these professionals. Since the introduction of the IBC, improvements have been observed in terms of faster resolution, better recovery outcomes, and enhanced investor confidence. The Code has also contributed to improving the overall

business environment in India. However, challenges such as delayed resolutions, increasing liquidations, operational difficulties, and varying levels of awareness among stakeholders continue to exist.

Tamil Nadu has a significant number of registered Insolvency Professionals and a large volume of corporate insolvency cases. Despite this, limited empirical studies have examined the practical working of the IBC from the perspective of Insolvency Professionals in the state. Therefore, the present study seeks to analyse corporate insolvency and resolution laws in India with special reference to selected insolvency companies in Tamil Nadu, focusing on awareness, professional opinions, revival outcomes, liquidation reasons, and the problems faced during the insolvency resolution process.

Review of Literature

Wolf-George et al. (2024) The study analyses the harmonisation of European insolvency laws, European Court of Justice Decisions, and the implementation of the EU Insolvency Regulation, highlighting both progress and challenges in cross-border insolvency proceedings. The authors' analysis underscores the sophistication of Europe's cross-border insolvency mechanisms, but a significant research gap exists when compared with India's Corporate Insolvency Resolution Process (CIRP). **Ram and Wadhwa (2024)** legal frameworks have contributed to the stigma surrounding insolvency, noting that punitive approaches in some countries contrast with the rehabilitative focus of others, such as the United States. The authors argue that such stigma can hinder effective rescue and rehabilitation of distressed companies, negatively impacting entrepreneurship and economic growth. **Hishikar (2023)** The study analyses how socioeconomic factors, policy priorities, and power dynamics shaped legislative changes, highlighting the creditor-oriented nature of colonial laws and the gradual shift towards balancing creditor and debtor interests post-independence. Hishikar discusses the impact of economic liberalisation in the 1990s and emphasises that, although the IBC represents a significant modernisation of India's insolvency framework, challenges remain in ensuring equitable stakeholder treatment and addressing the unique economic realities of Indian businesses. The study underscores the importance of a context-sensitive approach to insolvency reform to enhance its effectiveness and inclusivity. **Sgard (2023)** The paper situates bankruptcy laws within historical and socio-political contexts, comparing European legislation since the Middle Ages with economies lacking formal bankruptcy rules, such as Classical Rome, Meiji-era Japan, and the Islamic world. The study argues that effective insolvency systems require institutional frameworks that balance creditor coordination with state oversight, ensuring collective recovery without undermining stakeholder rights. This research provides valuable insights into the transnational development of bankruptcy laws and their implications for economic stability. **Shaun Matos (2023)** observes that courts across jurisdictions have adopted divergent approaches, adding complexity to insolvency proceedings. For instance, English courts often dismiss winding-up petitions if a debt dispute falls under an arbitration agreement, whereas Hong Kong courts have held that arbitration clauses that restrict a creditor's right may be contrary to public policy. The author argues that the lack of a unified approach highlights the need for global understanding of how courts balance the competing values of arbitration and insolvency. The study emphasises the urgency of policy reforms to develop a coherent framework that reconciles creditor rights, arbitration preferences, and insolvency principles. **Jadiyappa, N., and Kakani, R.K. (2023)** the study shows that stock markets respond positively to this cautious behaviour, but only when the decrease in dividends is accompanied by a corresponding reduction in financial leverage. This research highlights the broader corporate and financial implications of the IBC, demonstrating how strengthened creditor rights influence firm-level financial decisions. **Warmiyana et al. (2023)** India's IBC implements a time-bound resolution process aimed at maximising asset value while balancing stakeholder interests. Key issues such as delays in resolution, the role of insolvency professionals, and the treatment of operational versus

financial creditors remain underexplored in a comparative context. Addressing this research gap could facilitate a deeper understanding of best practices and areas for improvement in insolvency frameworks across Indonesia and India. **Kinare et al., (2022)** the paper highlights the need for all parties the Committee of Creditors (CoC), resolution applicants, and the Resolution Professional (RP) to rely on valuation reports prepared with utmost care, prudence, and adherence to established standards. The study underscores that careful valuation is essential to achieving the Code's objective of preserving and enhancing corporate value. **Chavan et al. (2022)** The study identifies research gaps related to the adequacy of existing legal provisions for managing complex insolvency cases, suggesting that a deeper analysis could improve understanding of CIRP implementation and inform reforms to enhance its effectiveness and efficiency. **Pandya (2022)** The paper advocates reforms aimed at streamlining procedures, preserving asset value, and creating a supportive environment for the revival of distressed companies, thereby contributing to sustainable economic growth. **Sadhwaniet al., (2022)** the study also identifies practical challenges within the CIRP, such as procedural delays and inefficiencies. Sadhwani and Awasthi conclude that, despite the CIRP's significant reforms, further improvements in implementation are required to ensure that it remains an effective mechanism for corporate insolvency resolution in India's evolving economic landscape.

Statement of the Problem

The Insolvency and Bankruptcy Code, 2016 was introduced to provide a unified, time-bound, and creditor-driven framework for resolving corporate insolvency. Insolvency Professionals play a crucial role under the Code by managing the corporate insolvency resolution process and balancing the interests of various stakeholders. However, despite several years of implementation, concerns remain regarding the level of awareness of insolvency laws, the effectiveness of resolution outcomes, the increasing number of liquidations, and the practical difficulties faced by Insolvency Professionals during the process. In Tamil Nadu, which has a significant number of registered Insolvency Professionals, there is limited empirical evidence on how effectively the IBC is functioning in practice. There is also a need to understand the opinions of Insolvency Professionals, assess the financial performance of revived companies, identify reasons for the dissolution of non-viable firms, and examine the challenges encountered during the insolvency resolution process. Hence, the present study attempts to analyse corporate insolvency and resolution laws in India with special reference to selected insolvency companies in Tamil Nadu.

Objectives

- To study the level of awareness of corporate insolvency and resolution laws in India.
- To ascertain the reasons for the dissolution of non-viable insolvent companies in Tamil Nadu.

Research Methodology

The present study is based on both primary and secondary data. Primary data were collected from sample respondents within the study area using a structured questionnaire designed to assess the perspective of Insolvency Professionals. Secondary data were obtained from various sources, including articles, news from journals, books, magazines, websites, and thesis reports of researchers who have conducted studies related to this field. The targeted population for the study consists of from three categories in corporate Insolvency Professional Agency in Tamil Nadu. Such as, Indian Institute of Insolvency Professionals of ICAI, ICSI Institute of Insolvency Professionals, and Insolvency Professional Agency of Institute of Cost Accountants of India.

Sample Size

Sample size refers to the number of elements included in the study. In Tamil Nadu, there are the top 20 districts across four regions (North, Western, Southern, and Central) 1,703 professionals are distributed across the North, Western, Southern, and Central regions. The sample size for this study was calculated using the Raosoft sample size calculator. A sample size of 314 was recommended at a 5% significance level to achieve a 95% confidence interval. To enhance the accuracy and reliability of the results, data were collected from 452 respondents across various types of insolvency companies. Of these, 208 respondents were from the North region, 113 from the Western region, and 77 from the Southern region, and 54 from the Central region, all drawn from the three Insolvency Professional Agencies.

Table 1: Study Population and Sample Size

SI.No	Tamil Nadu Regions	Population (N)	Proportion %	No. of Questionnaire Distributed	No. of Questionnaire Received
1	North Region	596	35	214	208
2	Western Region	436	26	115	113
3	Southern Region	369	21	83	77
4	Central Region	302	18	58	54
Total		1703	100	470	452

The researcher distributed 470 questionnaires to the identified sample, and 452 questionnaires only received the remaining 18 questionnaires are not received from the respondents. Hence, the response rate is 96.17 per cent. 252 (55.8%) are male and 200 (44.2%) are female. The data clearly shows that male respondents form a higher proportion compared to female respondents in the study. 236 (52.2%) belong to the age group of 41-50 years. This is followed by 95 respondents (21.0%) in the age group of 31- 40 years, while 66 respondents (14.6%) are above 50 years of age. A smaller proportion of respondents, 55 (12.2%), are below 30 years. the highest number 170 (37.6%) possess an MBA or Management degree. This is followed by 141 respondents (31.2%) who are Company Secretaries. Further, 87 respondents (19.2%) hold a Law degree (LLB/LLM), while 39 respondents (8.6%) are Chartered Accountants. 235 (52%) are from the North Region of Tamil Nadu, followed by 128 respondents (28.3%) from the Western Region.

6.2 Sampling Technique

A proportionate stratified random sampling technique was adopted for this study. This method ensured that each element within the population had an equal probability of being selected based on the population size in each study area. The researcher classified the subgroups according to the types of Insolvency Professional Agencies (Indian Institute of Insolvency Professionals of ICAI (IIPI – ICAI), ICSI Institute of Insolvency Professionals (ICSI IIP) and Insolvency Professional Agency of Institute of Cost Accountants of India (IPA ICMAI) to ensure representation across different types.

7. Analysis and Interpretation

To analyse the level of awareness of corporate insolvency and resolution laws in India of the respondents. This research analysis uses feedback gathered from 452 professionals about 10 crucial

variables. The Henry Garrett ranking method has been applied and the details of Garrett points are presented in Table 2

Table 2: Percentage Position and Corresponding Garrett's Table Value

Rank	Percentage Position	Calculated, Value	Garrett's Table Value
1	100(1-0.5) /10	5	82
2	100(2-0.5) /10	15	70
3	100(3-0.5) /10	25	63
4	100(4-0.5) /10	35	58
5	100(5-0.5) /10	45	52
6	100(6-0.5) /10	55	48
7	100(7-0.5) /10	65	42
8	100(8-0.5) /10	75	37
9	100(9-0.5) /10	85	30
10	100(10-0.5) /10	95	18

The above Table 2 presents the per cent position. The obtained value is converted into Garrett score by referring to the conversion Table given by Henry Garrett. Then for each factor, the scores of individual respondent are calculated. These mean score for all the factors are arranged in the order of ranks and the inference is drawn.

Table 3: Sources of Awareness of the Respondents

Source	Rank										N	Total Score
	1	2	3	4	5	6	7	8	9	10		
1	1066	2520	3213	3828	5304	1776	1890	1739	1050	360	452	22746
2	2952	2450	1890	6612	3536	2160	2352	1110	510	378	452	23950
3	1968	2520	3402	2726	1092	2160	2604	1924	1890	864	452	21150
4	984	2030	1953	3132	2184	3504	2100	3145	1020	756	452	20808
5	5576	3290	6552	4466	1456	1344	1218	1184	900	162	452	26148
6	902	1890	2646	2030	3640	1584	5124	1406	1440	468	452	21130
7	6888	4620	3087	1624	3172	2304	966	1369	1380	180	452	25590
8	1394	2100	3465	2378	1820	4848	2016	2405	690	666	452	21782
9	5904	4060	2898	1508	2652	2688	2058	1332	1200	324	452	24624
10	2870	2030	4788	2784	2184	3744	1554	1554	1110	504	452	23122

Table 4: Total Garrett Score and Mean Score

Sl.No	Awareness	Total Score	Mean Score	Rank
1	I am knowledgeable about the Insolvency and Bankruptcy Code (IBC)	22746	50.32	VI
2	I understand the main objectives of the IBC	23950	52.99	IV
3	I regularly follow updates related to the IBC	21150	46.79	VIII
4	My company provides training on the IBC to its employees	20808	46.04	X
5	I am familiar with the key provisions of the IBC	26148	57.85	I
6	The IBC has been discussed in our company's strategy meetings	21130	46.75	IX

7	Our legal team is well-versed in the IBC	25590	56.62	II
8	I can easily explain the IBC to others in my organization	21782	48.19	VII
9	Our company's policies align with the IBC requirements	24624	54.48	III
10	I have participated in workshops or seminars on the IBC	23122	51.15	V

Table 4 presents the level of awareness of corporate insolvency and resolution laws in India, measured through Garrett mean scores and ranks for selected insolvency companies in Tamil Nadu. The interpretation is made in line with the thesis title and the stated objective of studying awareness of the Insolvency and Bankruptcy Code (IBC). The table clearly shows that the respondents possess a relatively good level of awareness of the IBC, especially with regard to its key provisions. The highest mean score of 57.85 (Rank I) is observed for the statement "I am familiar with the key provisions of the IBC", indicating that most respondents have a strong basic understanding of the important sections and rules of the Code. This reflects the practical exposure of insolvency professionals and company officials to the IBC framework.

The statement "Our legal team is well-versed in the IBC" secured the second rank with a mean score of 56.62, showing that companies rely significantly on their legal teams for handling insolvency-related matters. This highlights the institutional awareness within organizations rather than only individual-level knowledge. The alignment of company policies with IBC requirements also shows a high level of awareness, as indicated by a mean score of 54.48 (Rank III). This suggests that selected companies have taken steps to incorporate IBC norms into their internal policies and compliance mechanisms. Moderate awareness is observed in understanding the objectives of the IBC and participation in workshops or seminars. The statements "I understand the main objectives of the IBC" and "I have participated in workshops or seminars on the IBC" secured fourth and fifth ranks with mean scores of 52.99 and 51.15 respectively.

Table 5: Mean Score and Rank

Sl.No	Variables	Weight					Total Weight Score	Mean Score	Rank
		5	4	3	2	1			
		SA	A	N	DA	SDA			
No. of Respondents									
1	Inadequate cash flow is a major reason for the dissolution of non-viable insolvent companies.	940	620	171	74	15	1820	4.03	III
2	Continuous operating losses lead to the dissolution of insolvent companies.	975	624	168	48	21	1836	4.06	II
3	Excessive debt burden contributes to the non-viability of insolvent companies.	760	328	216	166	63	1533	3.39	X
4	Failure to generate sufficient revenue results in company dissolution.	965	280	315	88	40	1688	3.73	VI

5	Poor financial management is a key reason for the failure of insolvent companies.	790	956	96	28	9	1879	4.16	I
6	Inability to service debt obligations leads to liquidation of companies.	765	508	234	136	26	1669	3.69	VII
7	Lack of access to fresh funding contributes to company dissolution.	940	556	207	92	10	1805	3.99	IV
8	Operational inefficiencies accelerate the dissolution of insolvent companies.	605	672	219	86	47	1629	3.60	VIII
9	Weak market demand for products or services results in non-viability.	830	568	258	80	18	1754	3.88	V
10	High fixed costs make revival of some insolvent companies impossible.	610	548	306	104	39	1607	3.56	IX

Weighted score = Weight No. of Respondents. Weighted average rank: Total/sum of weight

From Table 5, it can be observed that poor financial management is the most important reason for the dissolution of non-viable insolvent companies in Tamil Nadu, as it has secured the first rank with the highest mean score of 4.16. This clearly indicates that weak financial planning, improper control over expenses and ineffective use of funds significantly contribute to company failure. The second rank is obtained by continuous operating losses (mean score 4.06), showing that prolonged losses make it difficult for companies to sustain operations. Inadequate cash flow stands at the third rank (mean score 4.03), highlighting that the inability to meet day-to-day expenses is a major factor leading to dissolution.

The lack of access to fresh funding is ranked fourth, suggesting that without new capital support; financially distressed companies find it difficult to survive. Weak market demand for products or services occupies the fifth rank, indicating that external market conditions also play a role in non-viability. Other factors such as failure to generate sufficient revenue, inability to service debt obligations, and operational inefficiencies are ranked between sixth and eighth, reflecting moderate influence on dissolution. The least influential reasons are high fixed costs and excessive debt burden, ranked ninth and tenth respectively. Overall, the findings show that the dissolution of non-viable insolvent companies in Tamil Nadu is mainly driven by internal financial weaknesses and continuous losses, supported by cash flow problems and lack of funding, rather than debt burden alone.

8. Recommendations of the study

- Government agencies and insolvency professional bodies should organize awareness programs and workshops to educate insolvency professionals, corporate managers, and business owners about the latest provisions, practical applications, and benefits of the Insolvency and Bankruptcy Code (IBC) 2016.
- Continuous professional development (CPD) programs should be introduced by IPAs to enhance the legal knowledge, operational skills, and strategic decision-making capabilities of insolvency professionals, enabling effective handling of complex insolvency cases.

- Corporate entities should adopt better financial planning and monitoring practices to prevent insolvency. Internal training programs and financial literacy initiatives can help management teams maintain cash flow, manage costs, and reduce operational losses.
- Legal and institutional frameworks should be further streamlined to reduce procedural delays. Government and regulatory authorities must ensure faster approvals, simplified reporting, and better coordination among creditors, professionals, and regulators to enhance resolution efficiency.
- Insolvency professionals should be provided with enhanced access to viable funding options and credit support for reviving financially stressed companies. Banks and financial institutions may design special post-IBC financial instruments to support viable corporate revival.

9. Conclusion

An important contribution of the study is the analysis of post-IBC financial growth of revived firms. The results of factor analysis revealed that operational restructuring undertaken after IBC resolution plays a major role in improving the financial performance of insolvent companies. Exploratory and confirmatory factor analyses confirmed five key dimensions influencing post-resolution financial growth, namely legal and institutional resolution framework, post-resolution capital and credit reorientation, business reengineering and cost optimization, organizational stability and governance discipline, and post-IBC growth sustainability. Regression analysis further established that these factors significantly predict the financial growth of revived firms; thereby supporting the effectiveness of the IBC revival process. The study also examined the reasons for the dissolution of non-viable insolvent companies in Tamil Nadu.

The findings revealed that poor financial management, continuous operating losses, and inadequate cash flow are the major reasons leading to dissolution. Statistical analysis showed that these reasons significantly differ based on personal and professional characteristics of insolvency professionals such as age, educational qualification, industry type, company size, annual turnover, location, and ownership type. Other critical factors contributing to non-viability include lack of access to fresh funding, inability to service debt obligations, weak market demand, high fixed costs, operational inefficiencies, and excessive debt burden. The study concludes that while the Insolvency and Bankruptcy Code, 2016 has positively contributed to corporate revival and financial growth of viable firms, challenges still remain in terms of professional capacity building, early identification of financial distress, and addressing structural weaknesses in non-viable firms. Strengthening awareness, improving financial discipline, and supporting insolvency professionals through training and institutional support would further enhance the effectiveness of the insolvency resolution framework in India, particularly in Tamil Nadu.

10. Future Research Directions

The current study is limited to the state of Tamil Nadu. Future studies can be conducted across multiple states in India to capture regional variations in the awareness, practices, and challenges of insolvency professionals, thereby providing a more comprehensive national perspective. Future research can involve a larger and more diverse sample of insolvency professionals, corporate managers, and stakeholders to enhance the generalizability of findings and provide deeper insights into corporate insolvency practices.



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