






## INSOLVENCY AND BANKRUPTCY CODE 2016





### Chapter 25 Module C ABM PART -1 By Ashish Sir




#### What is Insolvency & Bankruptcy? 🧐

 Term	 Meaning	 Real-Life Example
<b>Insolvency</b> 	When a person or company <b>does not have enough money</b> to pay back loans.	Rahul has a shop but is <b>not making enough profits</b> . He <b>took a loan</b> of ₹5 lakhs but now <b>can't repay it</b> .
<b>Bankruptcy</b> 	When the <b>court declares</b> that the person or company is <b>completely unable to pay</b> and has to <b>sell assets</b> to pay back lenders.	Rahul's lenders <b>go to court</b> , and the judge <b>declares him bankrupt</b> . His <b>shop is sold</b> to repay loans.









#### Who Has to Follow IBC? 📄 👥


This law is for **companies, business owners, and individuals** who take **loans and cannot repay**.

 Who?	 Business Type	 Example
<b>Big Companies</b> 	Companies & LLPs	A textile factory takes a ₹50 Cr loan but <b>cannot repay</b> .

<b>Personal Guarantors</b> 	People who <b>promise to pay</b> if a company cannot	Ramesh <b>guarantees</b> a company loan. The company <b>fails</b> to pay, so now <b>Ramesh has to pay</b> .
<b>Small Businesses</b> 	Sole proprietors & partnerships	A small restaurant owner <b>cannot pay back</b> a ₹10 lakh loan.
<b>Any other businesses</b> 	As per govt. rules	Government <b>may add more</b> businesses to this list.

**Important People & Authorities Under IBC** 

 Authority	 What They Do?	 Example
<b>IBBI (Insolvency &amp; Bankruptcy Board of India)</b> 	Regulates <b>insolvency professionals &amp; rules</b> .	Ensures that <b>bankruptcy cases</b> are handled <b>fairly</b> .
<b>Insolvency Professionals (IP)</b> 	Experts who <b>help manage</b> the process.	If a company <b>goes bankrupt</b> , an <b>IP helps</b> to manage assets & repayments.
<b>Information Utility (IU)</b> 	Stores data on <b>loans &amp; defaults</b> .	A bank <b>checks IU records</b> before <b>giving loans</b> .
<b>Committee of Creditors (CoC)</b> 	Group of lenders who <b>decide how to recover money</b> .	If a company <b>defaults</b> , CoC members <b>decide how to sell assets</b> .
<b>National Company Law Tribunal (NCLT)</b> 	Main court for corporate bankruptcy cases.	If a <b>big company</b> goes bankrupt, its <b>case goes to NCLT</b> .

<p><b>Debt Recovery Tribunal (DRT)</b></p> 	<p>Court for <b>individual &amp; small business</b> bankruptcy cases.</p>	<p>A <b>shopkeeper's</b> loan case goes to <b>DRT</b> for recovery.</p>
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## What Happens When a Company Can't Pay? 🏠 ❌

📌 If a company **fails to pay** a loan of **₹1 crore or more**, a **creditor (bank/lender)** can **file a case in NCLT** to recover the money.

### 🚀 Step-by-Step Process:

1 **Case is filed** in NCLT by the lender.

2 NCLT **appoints an Interim Resolution Professional (IRP)**.

3 **Moratorium declared** (no legal action can be taken against the company during the process).

4 **Committee of Creditors (CoC) is formed** to decide the resolution plan.

5 Either:

- ✅ **A new plan is approved** (company continues with new management).
- ❌ **No plan is approved** → **Company is liquidated** (sold).

◇ Step	📄 What Happens?	🔍 Example
1 <b>Case Filing</b>	A lender files a case in NCLT.	Bank files case against <b>XYZ Ltd.</b> for <b>not paying ₹10 Cr.</b>


<b>2 IRP Appointment</b>	NCLT appoints a resolution expert.	An expert <b>takes charge</b> of XYZ Ltd.
<b>3 Moratorium</b>	No cases can be filed against the company during this time.	XYZ Ltd. gets <b>protection</b> for 6 months.
<b>4 CoC Formation</b>	All lenders meet & decide the future of the company.	Banks, suppliers, and lenders <b>vote</b> on what to do next.
<b>5 Resolution/ Liquidation</b>	Either a new plan is made or company is sold.	XYZ Ltd. is <b>sold</b> to recover money.


**Who Gets Paid First?** 🏠 💰

If a company is **liquidated**, money is distributed in **this order**:

🕒 Rank	🏠 Who Gets Paid First?	🔍 Example
1	<b>Insolvency Process Cost</b> 📁	Fees for professionals, legal costs.
2	<b>Secured Lenders</b> 🏠	Banks with <b>collateral</b> (e.g., home loan).
3	<b>Employee Salaries</b> 👤	Unpaid workers' dues.
4	<b>Unsecured Lenders</b> 💰	Creditors <b>without security</b> .
5	<b>Government Taxes</b> 📄	Income tax, GST dues.
6	<b>Shareholders</b> 📊	Owners get <b>money last</b> (if anything left).

**Major Change in Law: Creditors are Now in Control!** 📣 ⚖️

 **Earlier: Debtors (business owners)** had control over companies, even when they defaulted.

 **Now: Creditors (banks/ lenders)** take control as soon as a company defaults!








 **Old System (Before IBC 2016):**




- Owners **kept running the business**, even when **loans were unpaid**.
- Banks **had to wait for years** to recover money.

 **New System (After IBC 2016):**

- **IRP takes charge** of the company immediately.
- **CoC (creditors) decide** how to recover money quickly.

 **Summary Table – IBC in a Nutshell** 

 Topic	 Explanation	 Example
<b>Insolvency</b> 	When a company <b>cannot pay</b> its debts.	A mall owner <b>fails to repay</b> ₹50 Cr loan.
<b>Bankruptcy</b> 	When the court <b>declares insolvency</b> officially.	Court <b>orders the mall's sale</b> to repay loans.
<b>Who Does IBC Apply To?</b> 	Companies, LLPs, individuals, and small businesses.	A <b>hotel chain</b> and a <b>small trader</b> both fall under IBC.
<b>Who Manages the Process?</b> 	<b>IBBI, NCLT, DRT, IPs, CoC</b> manage resolution.	A company <b>defaults</b> , and <b>NCLT takes over</b> .


<b>Resolution Process</b> 	<b>180 days</b> to find a solution. If no plan is made, company is <b>sold</b> .	A <b>stressed airline</b> gets <b>new investors</b> within 6 months.
<b>Who Gets Paid First?</b> 	<b>Lenders &amp; Employees</b> get <b>priority</b> , shareholders come last.	<b>Banks</b> recover first, <b>investors</b> <b>lose</b> if no money is left.
<b>Creditors in Control</b> 	Banks now <b>have the power</b> to decide a company's fate.	A defaulting <b>real estate firm</b> is <b>taken over</b> by creditors.



## Corporate Insolvency Resolution Process (CIRP)

### When Does CIRP Start?

A company's insolvency process starts when it **fails to pay** a loan of **₹1 crore** or more.







### Who can start the process?

- **Financial Creditor (FC)**  – Banks, NBFCs, or financial institutions.
- **Operational Creditor (OC)**  – Suppliers, vendors, employees.
- **Corporate Debtor (CD) Itself**  – The company that owes the money.

 **Example:**  Raj Automobiles **took a loan** of ₹5 Cr from a bank but **could not pay back**. The bank **files a case in NCLT** to recover the money.




### Who Handles the Process?



After the **case is accepted**, a professional **takes charge** of the company:

 Who?	 Role	 Example
<b>Interim Resolution Professional (IRP)</b> 	Temporarily manages the company.	A bank files a case in NCLT, and IRP is <b>appointed to run</b> the company.
<b>Resolution Professional (RP)</b> 	<b>Permanent decision-maker</b> , if approved by CoC.	If creditors agree, RP continues managing the company.
<b>Committee of Creditors (CoC)</b> 	<b>Group of lenders</b> who decide company's future.	If a company owes ₹10 Cr, all banks form <b>CoC to decide</b> next steps.

## Moratorium Period (No Legal Action Allowed!)

 **As soon as CIRP starts, NCLT puts a STOP to the following:**

-  Filing new cases against the company.
-  Selling company assets.
-  Loan recovery by banks.

 **Example:**  A TV company goes into insolvency. Its creditors cannot take legal action or seize its factory until CIRP is complete.

## Resolution Plan (Finding a New Owner or Solution!)

 A Resolution Plan is a way to save the company instead of shutting it down!

- A buyer can invest money  to revive the company.

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- The company may **restructure loans** 🏦 to pay later.
- If no plan is found ❌, the company is **sold off** 🏠.

**Example:** ✈️ Jet Airways went into insolvency. A new investor bought the company and helped it restart operations!

### Timeline of CIRP ⏳ (Step-by-Step Process)

CIRP must be **completed in 180 days** (can extend to **330 days max**). 📅

📅 Step	🗨️ What Happens?	⏳ Timeframe
<b>1 Case Filed</b>	A bank or lender <b>files a case in NCLT.</b>	<b>Day 0</b>
<b>2 IRP Appointed</b>	An <b>Interim Resolution Professional</b> takes charge.	<b>Within 14 Days</b>
<b>3 Public Notice</b> 📄	IRP within 3 days of appointment <b>announces</b> that claims can be submitted.	<b>Within 3 Days</b>
<b>4 Claim Verification</b> ✅	Creditors submit claims, and IRP verifies them.	<b>Up to 90 Days</b>
<b>5 CoC Formation</b> 🏢	<b>Committee of Creditors (CoC)</b> is formed.	<b>Meeting Within 7 Days</b>
<b>6 First CoC Meeting</b> 🤝	Creditors <b>decide whether to keep IRP</b> or <b>appoint a new RP.</b>	<b>Within 7 Days</b>
<b>7 Resolution Plan Submission</b> 📄	Interested buyers submit their plans.	<b>Within 75 Days</b>
<b>8 CoC Approval</b> ✅	CoC <b>votes</b> to approve the best resolution plan.	<b>Within 165 Days</b>
<b>9 NCLT Approval</b> 🏢	NCLT <b>gives final approval</b> for the resolution plan.	<b>Within 180 Days</b>




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**✦ If no plan is approved, the company is LIQUIDATED (sold). ✖ 🏠**

**🔍 Example:** 🛒 Future Retail (Big Bazaar) could not repay loans. The CoC selected a new owner, and NCLT approved it in 180 days.

**Summary Table – CIRP Made Simple! 🎯**

 Topic	 Explanation	 Example
<b>CIRP Start</b> 🚀	If a company <b>defaults on ₹1 Cr+ loan</b> , CIRP starts.	<b>Bank files case</b> against a mall owner.
<b>Who Handles It?</b> 📄	IRP, RP, CoC, NCLT manage the process.	<b>IRP takes charge</b> , creditors vote on decisions.
<b>Moratorium Period</b> ⏸️	<b>No legal action allowed</b> during insolvency.	<b>A factory cannot be seized</b> until CIRP ends.
<b>Resolution Plan</b> ✅	A new investor <b>buys &amp; revives</b> the company.	<b>Airline gets a new owner</b> , resumes operations.
<b>Liquidation</b> ✖	If no plan is approved, company is <b>sold off</b> .	<b>A hotel is sold to repay lenders</b> .
<b>Who Gets Paid First?</b> 💰	<b>Lenders &amp; Employees</b> get priority, <b>shareholders last</b> .	<b>Banks recover money</b> , investors <b>lose money</b> .
<b>Time Limit</b> ⌚	CIRP must finish in <b>180 days</b> (max 330 days).	<b>A retail company gets a buyer in 6 months</b> .

## **Appointment of Interim Resolution Professional (IRP)**



As soon as NCLT accepts the CIRP application, it appoints an **Interim Resolution Professional (IRP)** within **14 days** unless there's any investigation or issue with the proposed person.

### **📌 What does the IRP do?**

- ✓ Takes full control of the company's operations.
- ✓ Board of Directors lose power – IRP makes all decisions.
- ✓ Manages daily operations as an ongoing business.

**🔍 Example:** 🏢 XYZ Ltd. defaults on a ₹5 Cr loan. The bank files a case, NCLT appoints Ms. Priya as IRP to manage the company.

## **Public Announcement 📄 (Calling Creditors to Submit Claims)**

Within **3 days** of appointment, the IRP must:

**📣 Publish an announcement on:**

- ✓ IBBI website
- ✓ Company's website
- ✓ Two newspapers (one in local language)

**📌 Why?**

👉 **Invites all creditors** to submit their claims within **11 days** with proof.

🔍 **Example:** 🏢 A retail chain **owes money** to multiple suppliers and banks. The **IRP publishes a notice**, and creditors **submit their claims** to be part of the process.

**Formation of Committee of Creditors (CoC) 💰**

📌 Once **all creditor claims** are received, IRP forms a **Committee of Creditors (CoC)**.

🏠 Type of Creditor	💡 Included in CoC?
<b>Financial Creditors (FCs)</b> (Banks, NBFCs) 💰	✅ Yes
<b>Operational Creditors (OCs)</b> (Suppliers, Vendors) 📦	❌ No, only in special cases
<b>Employees &amp; Workers</b> 👤	✅ One representative included

**📌 What Happens Next?**

**1 CoC meets within 7 days** of formation.

**2 Votes on whether to continue the IRP** as RP (needs **66% approval**).

**3 If rejected, CoC appoints a new RP** and files for NCLT approval.

🔍 **Example:** 🏗️ A **construction company** defaults on a ₹200 Cr loan. The **top 18 lenders** (banks) form CoC and vote to appoint a new RP.

## Withdrawal of CIRP ❌ (Cancelling the Insolvency Process)

📌 The company can **stop CIRP ONLY IF:**

- ✅ The **applicant requests withdrawal.**
- ✅ **CoC approves with 90% voting.**
- ✅ **Happens before an Expression of Interest (EOI) is published.**

🔍 **Example:** 🏢 A company secures emergency funding and wants to pay back lenders. CoC votes 90% in favor, and CIRP is cancelled.



## Information Memorandum (IM) 📄

A document **prepared by RP** that contains **complete details** of the company.


📄 Details Included in IM	🔍 Example
Assets & Liabilities 📊	List of factories, land, machinery, loans
Latest Financial Reports 📈	Balance sheet, profit & loss statement
List of Creditors 💰	Who the company owes money to
Pending Guarantees 🏠	Any outstanding guarantees or securities
Employee & Worker Data 👤	How many workers are employed
Other Important Info 📄	Any legal cases, risks, or additional data


📌 **Who gets the IM?**

- ✅ **CoC members (Lenders).**
- ✅ **Interested buyers (Resolution Applicants).**

 **Example:**  A steel company under insolvency prepares an IM listing all its properties, employees, and outstanding loans. Potential buyers review it.

## **Expression of Interest (EOI) (Finding Buyers)**

 The RP invites buyers who may be interested in taking over the company.

 Published **within 75 days** of CIRP start.

 Contains **eligibility criteria** for buyers.

 Helps **identify serious investors**.

### **Who CANNOT apply? (As per Section 29A)**



 **Bank defaulters** (NPA for 1+ year).

 **Willful defaulters**  .

 **People convicted for fraud**.



 **Banned by SEBI from stock markets**  .

 **Existing company promoters** (if involved in fraud).

 **Example:**  A shopping mall under insolvency invites buyers. **Big real estate firms** submit EOIs, but the **original owner cannot apply** because of unpaid loans.

## **Resolution Plan Evaluation (Selecting the Best Offer)**

📌 CoC evaluates resolution plans based on the Evaluation Matrix.

 Criteria	 What It Means?
<b>Bid Amount</b> 💰	How much money the buyer is offering
<b>Future Viability</b> 🚀	Will the company <b>survive long-term</b> ?
<b>Jobs Saved</b> 👤	Will employees <b>keep their jobs</b> ?
<b>Operational Plan</b> 🏭	How will the buyer <b>run the company</b> ?

📌 **Best Offer Gets CoC Approval!** ✅

- ✅ CoC votes with **66% majority** to finalize the resolution plan.
- ✅ RP submits it to NCLT for final approval.
- ✅ **If no plan is approved**, company goes for liquidation. ❌

🔍 **Example:** 🏭 A cement company under insolvency receives **three bids** from buyers. The **highest bid** offering ₹200 Cr and **saving 2,000 jobs** is approved.

## Final Step: NCLT Approval 🏛️ (Closing the Case!)

- 📌 Once CoC approves a resolution plan, it is sent to NCLT for final approval.
- ✅ **If NCLT Approves** – New owner takes over. 🎉
- ❌ **If NCLT Rejects** – The company goes for liquidation.

**Example:** 🚗 A car manufacturing company finds a buyer who promises to invest ₹500 Cr. NCLT approves the deal, and the company resumes operations.

**🔗 Summary Table – CIRP in a Nutshell! 🎯**

🔍 Step	💡 What Happens?	🕒 Timeline
<b>1 IRP Appointment</b> 👤	IRP takes over the company.	Within <b>14 Days</b>
<b>2 Public Announcement</b> 📣	IRP within three days of appointment invites creditors to submit claims.	Within <b>3 Days</b>
<b>3 CoC Formation</b> 🏛️	Lenders form a committee to decide next steps.	Within <b>7 Days</b>
<b>4 IM Preparation</b> 📄	RP creates company profile for potential buyers.	Within <b>75 Days</b>
<b>5 EOI &amp; Buyer Selection</b> 💰	Buyers submit proposals to take over the company.	Before <b>75 Days</b>
<b>6 CoC Voting</b> ✅	CoC selects the best resolution plan.	Before <b>165 Days</b>
<b>7 NCLT Approval</b> 🏛️	Court finalizes the deal or orders liquidation.	Before <b>180 Days</b>