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The Big Fish and the Small: Reimagining IBC for MSME Survival

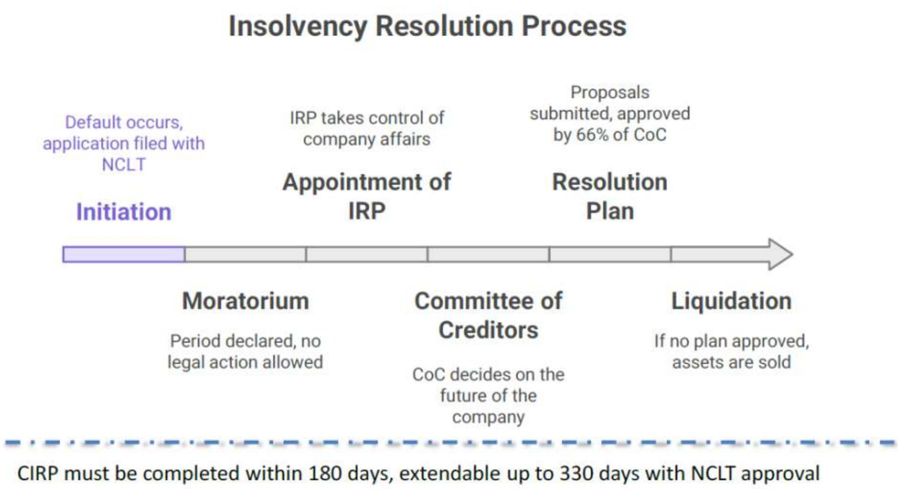
Background

The Insolvency and Bankruptcy Code (IBC), 2016 a comprehensive law passed by the Indian Parliament was introduced as a landmark reform to address the growing problem of stressed assets and financial distress in India. Insolvency is a situation where an entity is unable to repay its outstanding debt. The Code provides a time-bound process for resolving insolvency among companies and individuals. Before the IBC was enacted, insolvency and bankruptcy matter in India were governed by a patchwork of laws such as the Companies Act, SICA (Sick Industrial Companies Act), and SARFAESI Act. Thus, insolvency processes were scattered across multiple laws and often dragged on for years (debt resolution often took years), leading to erosion of asset value and reduced investor confidence, and uncertainty.

To fix these issues and bring global best practices to India, the Insolvency and Bankruptcy Code, 2016 was introduced as a comprehensive legal framework. The IBC consolidated these laws into a single, time-bound framework aimed at providing predictability and efficiency. Its key objectives are to ensure faster resolution of insolvency cases (within 180–330 days), maximize the value of assets, balance the interests of creditors, debtors, and employees, and promote the culture of entrepreneurship by making credit more accessible.

The Corporate Insolvency Resolution Process (CIRP) under India's IBC, 2016 enforces a strict timeline to ensure a structured and efficient resolution of corporate financial distress. It promotes a balanced approach by aligning the interests of both creditors and debtors through transparent, collective decision-making. The process must conclude within 180 days, including litigation and delays—with a maximum permissible extension up to 330 days, subject to NCLT approval1. Backed by a strong legal framework and adaptive jurisprudence, CIRP continues to anchor India's evolving insolvency ecosystem.

[1] As per the Insolvency and Bankruptcy Code (IBC), the Corporate Insolvency Resolution Process (CIRP) is required to be completed within 180 days from the date of admission by the National Company Law Tribunal (NCLT). This period may be extended by a one-time approval of the NCLT for a maximum of 90 additional days, bringing the total permissible duration to 270 days. In exceptional cases involving legal or procedural delays beyond the control of the parties, the resolution period may extend up to 330 days, including any time spent in litigation



Who can use this CODE
- Companies and LLPs
- Individuals and partnerships
- Personal guarantors of corporate debt

Who Can Initiate an Insolvency Process
- Financial Creditors (e.g., banks, bondholders)
- Operational Creditors
- The Corporate Applicant

The Insolvency and Bankruptcy Code (Amendment) Bill, 2025

Over the years, the Code has been amended to address challenges in its implementation and reflect the dynamic needs of creditors, debtors, and market participants. The IBC Amendment Bill, 2025 is the latest reform push, tabled in Parliament to enhance the efficiency, flexibility, and clarity of the insolvency resolution processes especially in areas like fast-track resolution, group insolvency, out-of-court settlements, and MSME protections. The 2025 Bill draws heavily from a report by the 2023 Expert Committee constituted by the Insolvency and Bankruptcy Board of India (IBBI), which had already examined the potential use of mediation under the IBC. The Insolvency and Bankruptcy Code (Amendment) Bill, 2025 was introduced by Finance Minister Nirmala Sitharaman in Lok Sabha on August 12, 2025, now under review by a parliamentary select committee. It amends the Insolvency and Bankruptcy Code, 2016 and proposes seven major changes:

The Insolvency and Bankruptcy Code (Amendment) Bill, 2025: Key Amendments Proposed	
Amendment	**Description**
Cross-Border Insolvency	Cooperation with foreign jurisdictions
Group Insolvency	Joint CIRP for connected debtors
MSME Resolution Plan	Base plan invited from debtor
Fast-Track Insolvency	Time-bound CIRP for smaller firms
Out-of-Court Settlements	CIRP withdrawal with 66% CoC approval
CoC Voting	66% voting for CIRP withdrawal
CoC Voting	Strict timelines for claim submission

In nutshell, **the Insolvency and Bankruptcy Code (Amendment) Bill, 2025** is considered as a major step to fix long-standing challenges in India's insolvency process because of the following measures it aims to

- Speed up case approvals and liquidation timelines by easing delays caused due to heavy caseloads and procedural hurdles at the National Company Law Tribunal (NCLT).
- Clarify key terms such as “security interest” to ensure secured creditors, especially banks, receive their rightful priority and to reduce inconsistent interpretations by tribunals.
- Introduce mechanisms for handling complex cases such as group insolvency (where multiple related companies face bankruptcy) and cross-border insolvency (involving foreign creditors), alongside a modified framework for creditor-initiated insolvency.
- Modernize the process for creditors to initiate insolvency proceedings, making the system more transparent, efficient, and predictable.

Comment

While the proposed amendments align with international best practices and aim to improve transparency, protect creditor rights, and strengthen investor confidence, the broader experience under the IBC since its enactment in 2016 highlights a sharper reality. The Code has undoubtedly introduced time-bound processes, improved recoveries, and enhanced India's global reputation as a credible insolvency regime. Yet these gains have largely accrued to large corporates and financial institutions, while for Micro, Small, and Medium Enterprises (MSMEs)—the backbone of India's economy—the framework has remained difficult to access, weighed down by procedural hurdles, and more often a path to liquidation than genuine revival.

For instance, the Pre-Packaged Insolvency Resolution Process (PPIRP), introduced in 2021 exclusively for MSMEs, was designed with the promise of efficiency, affordability, and minimal disruption to business continuity. Its purpose was to rescue smaller businesses in financial distress while preserving jobs and enterprise value. In practice, however, it has seen muted uptake. The challenges are clear: MSMEs often lack financial buffers, legal expertise, and managerial capacity to engage with the complex requirements of the IBC. The need to obtain prior consent from 66 percent of unrelated financial creditors, coupled with onerous documentation, has turned the process into a hurdle rather than a lifeline. Adding to these difficulties, creditors are generally hesitant to accept substantial reductions in their claims, which undermines the viability of any meaningful restructuring effort.

The result has been predictable and unfortunate. For many debt-ridden MSMEs, entry into the National Company Law Tribunal (NCLT) process effectively becomes the first step toward liquidation rather than revival. The competitive imbalance is stark: when an MSME is pitted against a larger company in the bidding process, the outcome often resembles a case of the big fish swallowing the small fish. Cases such as Laxmi Cotsyn Ltd., Coastal Projects Ltd., and ABC Bearings Ltd. Have shown how distressed smaller firms end up being absorbed at steep discounts, with little thought given to preserving their independent continuity. The judiciary, while consistent in upholding the primacy of the Committee of Creditors—as seen in the landmark Essar Steel judgment—has left limited room for operational creditors or smaller stakeholders to seek equitable outcomes. This reinforces a system where efficiency for large creditors comes at the expense of inclusivity for MSMEs.

If the IBC is to achieve its broader policy vision, it must recognize that the dynamics of survival are different for small businesses. For large corporates, insolvency resolution may be about unlocking value and ensuring repayment, but for MSMEs, it is a matter of preserving livelihoods, protecting smaller supply chains, and sustaining local economies. Liquidation should not be the default trajectory for MSMEs entering insolvency. Instead, greater emphasis must be placed on providing such firms with structured time, supportive restructuring mechanisms, and institutional handholding that allows them to recover rather than collapse. Simplifying procedures, lowering creditor approval thresholds, and introducing state-backed facilitation or advisory support could help level the playing field for smaller enterprises.

Nine years since its introduction, the IBC stands at a crossroads. It has succeeded in restoring creditor confidence and strengthening corporate discipline, but it risks being seen as exclusionary if MSMEs continue to find little space for survival within its framework. The proposed IBC (Amendment) Bill, 2025 is a timely opportunity to course-correct—not by weakening creditor rights, but by ensuring that resolution frameworks are calibrated to the realities of small businesses. If India truly values its MSME sector as the engine of employment and grassroots economic growth, then insolvency law must be reshaped to give this sector more than just a liquidation exit. The question that remains is whether the IBC will evolve into a balanced mechanism that protects both big and small, or whether it will primarily remain a tool for the survival of the giants, leaving smaller enterprises to perish.