TABLE OF CONTENTS

1. INTRODUCTION

1.1 Background

The corporate sector in a number of countries has been distressed by the global financial crisis and has an impact on both, a tightening of credit and weaker consumer demand. Large scale corporate restructuring is one of the most daunting challenges faced by economic policy makers. The main objectives of large-scale corporate restructuring are to restructure viable corporations and liquidate nonviable ones, restore the health of the financial sector, and create the conditions for long-term economic growth.

Aggressive hikes in benchmark interest rates, severe slowdown in the global economic growth and significant fall in the exchange rate of the Indian rupee has adversely impacted the debt servicing capability of Indian Corporates and is reflected by the rise in non-performing assets (NPAs) levels. An even bigger concern is the rising threat of loans getting restructured as high inflation and interest rates impact demand and reduce the pricing power of the corporates.

This brought in an era of Corporate Debt Restructuring (CDR). It seeks to recognize impairment by allowing the reorganization of outstanding debt obligations by lessening the interest rates and rescheduling the installments by extending the term of repayment. This enables increase in the ability of the borrower to meet debt obligations by letting the lender waive in part or convert a part of debt into equity.

The borrowers are also able to reduce their interest and principal debt burdens by providing for sufficient breathing space to genuinely viable units to enable them to bring about a turnaround without having to resort to tedious DRT and court procedures or end in winding up proceedings.

From an economic point of view, CDR can be described as a proactive measure to not let companies land into a troublesome financial situation from where they cannot make a recovery. It can be explained as a voluntary and non-regulatory method for organizations to deal with their dues. This is done by increasing the time needed to pay the debts back and bringing down the rates. This also lets the company add to its capability to pay its debts. In some cases, the lenders forego certain amounts of the debt amount in lieu of equity acquisition in the company.

1.2 Necessity for Corporate Debt Restructuring

Banks have to face various difficulties while restructuring their large exposures specially which are involving more than one lender, under consortium / multiple banking arrangements. In the background of these difficulties, need for such a specialized institutional mechanism arose. If a restructuring involve a single bank, it becomes easier for the banks to negotiate the terms of restructuring of their own exposure with the customers but where a restructuring involved multiple lenders, banks find it difficult to co-ordinate their individual negotiation and monitoring efforts with the other banks involved.

Keeping in mind the above facts, Reserve Bank of India put in place the scheme of CDR in August 2001 based on the mechanism prevalent in countries which were already seized of the matter e.g. U.K., Thailand, Korea, Malaysia etc. These guidelines were finalized after extensive discussion between Government of India, Reserve Bank, Banks and FIs.

The main objective of the CDR framework was to ensure timely and transparent mechanism for restructuring the corporate debts of viable entities facing problems, outside the purview of Board for Industrial and Financial Reconstruction, Debt Recovery Tribunal and other legal proceedings, for the benefit of all concerned.

1.3 Corporate Debt Restructuring Mechanism

The Corporate Debt Restructuring Mechanism (CDR) in India was established in 2001 when the Reserve Bank of India came up with guidelines for it to be followed by banks and financial institutions. The Corporate Debt Restructuring (CDR) Mechanism is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA) and the principle of approvals by super-majority of 75% creditors (by value) which makes it binding on the remaining 25% to fall in line with the majority decision. The CDR Mechanism covers only multiple banking accounts, syndication/consortium accounts, where all banks and institutions together have an outstanding aggregate exposure of Rs.100 million and above. It covers all categories of assets in the books of member-creditors classified in terms of RBI's prudential asset classification standards. Even cases filed in Debt Recovery Tribunals/Bureau of Industrial and Financial Reconstruction/and other suit-filed cases are eligible for restructuring under CDR. Reference to CDR can be made either by a company or a bank or financial institution where the bank or financial institution has a 20% share in the term loan or the working capital. Such reference to the CDR cell, the body receiving applications for CDR, can be made either by the bank or financial institution or by the company after consultation with such bank or financial institution.

There are important terms in the CDR process which needs to be identified like Debtor Creditor Agreement and the Inter Creditor Agreement. The debtor creditor agreement is an arrangement between the debtor company and the creditor during which both parties have to agree to refrain from taking action against each other with respect to each other's claims. Every such arrangement or agreement has a standstill clause which prescribes that for a period of 90 or 180 days no legal action will be undertaken by both parties and the debtor will also provide the creditor timely information regarding his financial condition. Besides, the borrower needs to undertake that during the 'stand still' period the documents will stand extended for the purpose of limitation and that he would not approach any other authority for any relief and the directors of the company will not resign from the Board of Directors during the 'stand still' period. However, the standstill clause is applicable to the borrower or lender only with respect to civil action and not criminal action. Inter Creditor Agreements (ICAs) are necessary to be entered into among creditors to ensure that individual creditors' rights are protected and no one is prejudiced at the expense of the other. These agreements also stipulate that if 75% of the creditors agree to a debt restructuring package by value, then it is also binding on the remaining creditors.

The CDR Guidelines classify borrowers into four categories in order to determine the standard terms and conditions applicable under the CDR mechanism. These categories are based on the causes of the distress faced by the borrower-corporate and the actions of its promoters and directors. The main benefit which the lender derives from the debt restructuring package is that it is significantly able to reduce the growing number of nonperforming assets on its balance sheet and therefore one of the main reasons for rise in CDR by banks, is to reduce the growing number of nonperforming assets especially in case of public sector banks.

1.4 Structuring of CDR in India

The CDR mechanism in India has a three tier structure,

1. CDR Standing Forum
2. CDR Empowered Group
3. CDR Cell

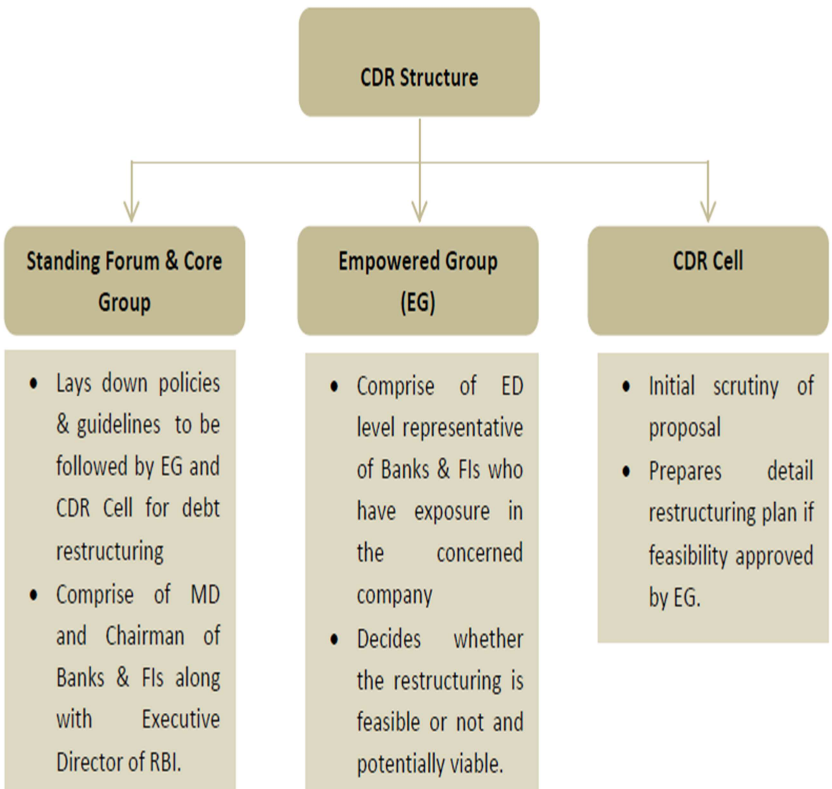

Figure 1.1 Corporate Debt Restructuring Structure

CDR Standing Forum

This forum is a representative body of all banks and financial institutions participating in the debt restructuring process. This forum includes different financial institutions and scheduled banks and excludes regional rural banks, non-banking financial companies and co-operative banks. One responsibility of this forum is to lay down policies to be followed by the empowered group and the CDR cell and to ensure timely implementation of the CDR package. A platform is given to both creditors and borrowers to amicably settle their disputes. The standing forum can review decisions of the empowered group and the CDR cell. The standing forum comprises of banks such as ICICI, SBI, IDBI and the chairman of the Indian Banks Association. Most of the big financial institutions in India that lend money to companies are permanent participating members of the standing forum.

CDR Empowered Group

The CDR Empowered Group considers the preliminary report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the Empowered Group decides that restructuring of the company is prima-facie feasible and the enterprise is potentially viable in terms of the policies and guidelines evolved by the Standing Forum, the detailed restructuring package is worked out by the CDR Cell in conjunction with the Lead Institution, which is the institution which has the highest exposure in the concerned company. The Empowered Group examines the viability of the restructuring package and later on gives its opinion as to whether the package is feasible within 90 days or 180 days. If however, the restructuring package is not granted then the creditors have the option of exiting the arrangement, and seeking their own enforcement measures for recovery of their dues.

CDR Cell

The CDR Cell is the first receiving authority for applications for CDR to be performed and it analyses the applications received and if it is of the prima facie opinion that CDR package should be granted, then permission is given. The CDR cell should give its opinion within 30 days of receiving the application and then refer it to the Empowered Group for its suggestion. If the empowered group is prima facie satisfied about the validity of the package, then restructuring is granted, else, the creditor can use other methods for recovery of their dues. The CDR cell after receiving the application for CDR, looks into various aspects such as the financial health of the company, the role of corporate governance in decision making, and then forwards the application to the empowered group with its own suggestion. If the cell finds the restructuring to be valid, it will prepare the rehabilitation plan with creditors and if necessary, can engage experts from outside.

Section 230 of the Companies Act 2013 includes a new provision for companies proposing a merger or arrangement, to disclose to the National Companies Law Tribunal in an affidavit, a past or present scheme of debt restructuring and particulars thereof, which scheme must have the consent of not less than 75 per cent of the secured creditors by value. The details to be submitted to the Tribunal include a creditor's responsibility statement; safeguards for the protection of other secured and unsecured creditors; an auditor's report that the fund requirements of the company after restructuring shall conform to the liquidity test; a statement where the company proposes to adopt the CDR guidelines; and a valuation report of the company assets.

1.5 Concept of Restructuring and Relevance to Insolvency

The concept of restructuring holds relevance in the context of insolvency when the company is in financial distress as restructuring of a company is done when the company essentially has a viable business but owing to external factors, it has a bad balance sheet and therefore incurs losses. These external factors may be factors such as government policy, change of interest rates, pressure on the domestic currency, among other factors. These situations are beyond the company's control and when a company tends to have a bad balance sheet owing to such unfavorable conditions, it has to be given another opportunity to manage its assets and liabilities and therefore here the role of debt restructuring is important. The basic objective of debt restructuring is to ensure that the company's business stays viable in the long term and the creditors in turn enter into different arrangements with the company with respect to foregoing a part of the loan, or exchanging a part of the debt for equity shares in the company, which is also referred to as the debt equity swap, or creditors agreeing to a fixed moratorium period where both the company and the creditors agree to refrain from taking any action against each other during the fixed period. The concept of corporate debt restructuring is part of the external restructuring mechanism of the company where it has to ensure that it has the assets to back the restructuring program, because once the company enters into the zone of insolvency, it has little choices to make and prolonged insolvency then becomes a ground of winding up the company and it loses its separate legal identity. However, if proper arrangements are made with the creditors, both the company and the lenders are satisfied with it and the company is able to keep its business thriving.

Corporate Debt Restructuring (CDR) can take a variety of forms. The plan can provide for conversion of debt into equity, or preference shares convertible into ordinary shares, adjustment of secured creditors' rights, a compromise in which creditors waive a part of their claims or extend term of their debts, modification of Inter Creditor Agreements (ICAs), valuation and settlement of contingent claims, and the distribution of assets and discharge of liabilities of members of a group of companies where these have become inextricably entangled so as to make it difficult to establish the assets and liabilities of any individual company within the group. The restructuring of the company involves different stages such as execution of a standstill agreement, where both the parties mutually agree to refrain from taking any kind of action to enforce their claims for a certain period, after which information about the company's financials is gathered. Post this stage, the parties move to the next stage which is preparation and consideration of proposals and meanwhile, it is necessary to keep the company trading, for which purpose it might need additional funding and therefore the lenders during negotiations may agree to a higher rate of interest to support the additional funding.

1.6 Basic Principles of Corporate Debt Restructuring

The legal regime for corporate debt restructuring in India is based on the INSOL principles. The International Association of Restructuring, Insolvency and Bankruptcy Professionals is a federation of national association of lawyers and accountants who specialize in turnaround and insolvency proceedings. The principles laid down are basic ones which deal with restructuring, based on which the Indian model of corporate debt restructuring is based. These principles are:

- Where a debtor is found to be in financial difficulty, all creditors should cooperate with each other and execute a standstill agreement between themselves and the company to allow themselves to access the relevant information provided by the debtor so that they can evaluate proposals for resolving the debtor's financial difficulties.
- During the standstill period, all creditors should agree to refrain from taking steps to enforce their claims against or to reduce their exposure to the debtor. However, the creditors are entitled to expect that their position with respect to other creditors will not be prejudiced.
- The debtor should not take any action which might adversely affect the prospective return to relevant creditors (either collectively or individually) as compared with the position at the Standstill Commencement Date.
- Co-ordination between creditors and debtor should be facilitated by selection of one or more representative co-ordination committees and by appointment of professional advisers to assist such committees and where appropriate, the creditors taking part in whole process.
- During the standstill period, the debtor should allow the creditors and their representative committees reasonable access to all relevant information about the company's assets, liabilities, business and prospects in order to ensure that proper evaluation of the restructuring package is made.
- Proposals for restructuring should reflect applicable law at the time which governs such arrangements at the Standstill Commencement Date.
- Information obtained by creditors for the purpose of evaluation of the restructuring package should be made available to all relevant creditors and should, unless already publicly available, be treated as confidential.
- If additional funding is provided during the standstill period, the repayment of such funding should be accorded priority status as compared to other claims of relevant creditors.

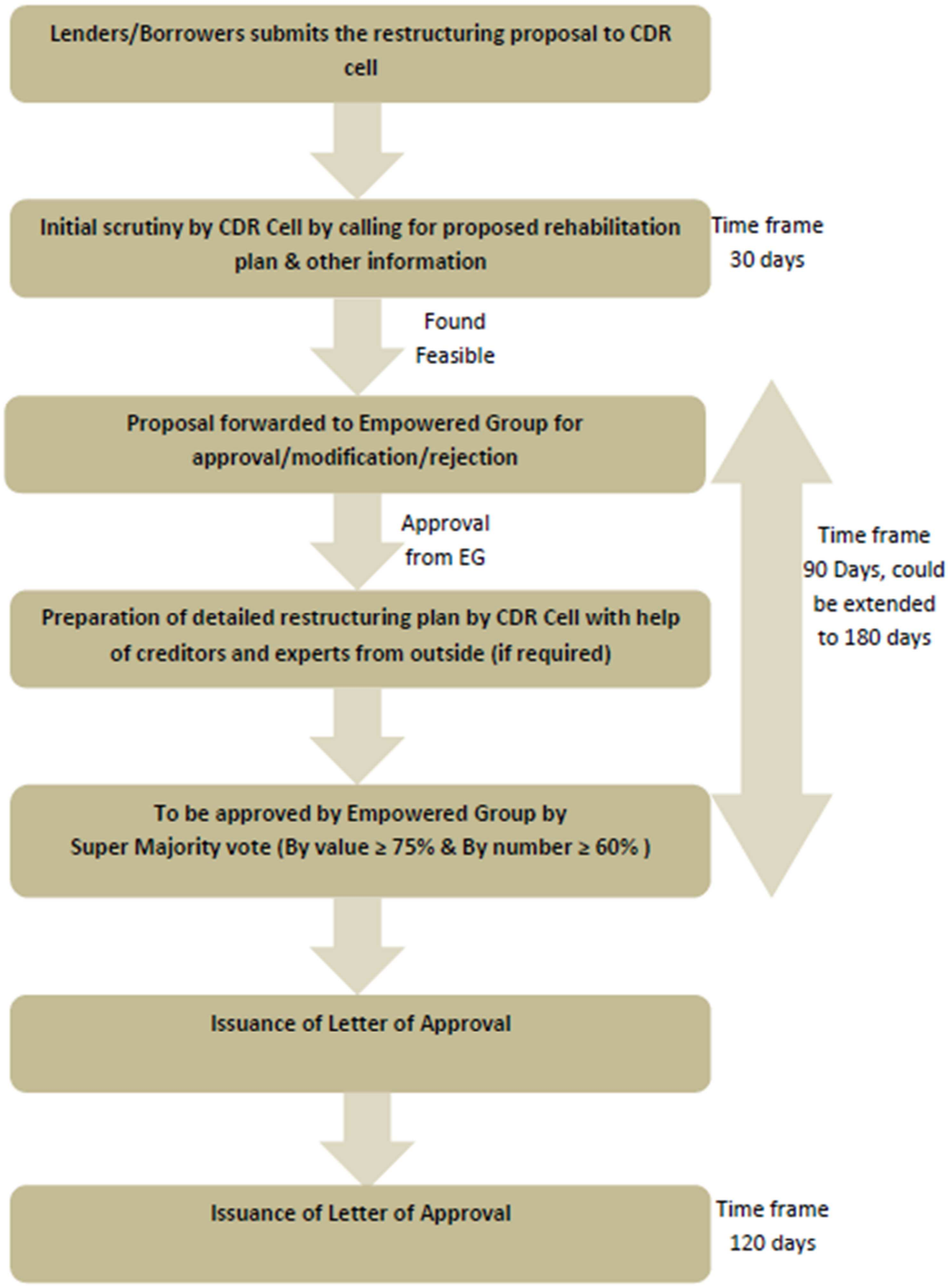

Figure 1.2 Steps of Corporate Debt Restructuring

1.7 Prevailing trends in India's Corporate Debt Restructuring mechanism

So far as the recent trends are concerned, many infrastructure companies, particularly in the iron and steel sector, occupy more number of CDR lists than any other company. One of the important reasons for this is that the manufacturing sector in the current economic scenario is down owing to low demand in a slowing economy, which in turn puts high pressure on the profitability of such companies and increases their chances of running into losses. Asset quality at scheduled commercial banks has been deteriorating owing to economic slowdown, delayed clearances of various projects and aggressive expansion by corporate during the high growth phase.

Another trend is that recent surveys show that public sector banks have been more lenient in leading consortium of banks for sanctioning of the CDR packages as compared to private sector banks. For instance, Chennai-based Indian Overseas Bank has the most restructured assets (9.7% of total), followed by Central Bank of India (8.39%). In comparison, restructured assets of ICICI Bank, HDFC Bank and Axis Bank are below 2%. However, rise in the grant of CDR packages by the public sector banks has not helped their cause as this has not impacted the rising rate of nonperforming assets in such banks.

One of the major disadvantages of the current practice in CDR is that the provision relating to the promoter director's personal guarantee to the entire CDR process is frequently subject to misuse. A committee headed by B. Mahapatra, Executive Director of RBI had recommended that the provision that the promoter-director's liability is to be determined by such director sacrificing 15% of what the bank does needs to be changed so that the contribution made by such director is not linked to the bank's sacrifice but to the diminish the fair value of the company.

Another major disadvantage is that in the restructuring package, where debt equity swap is often a part, liberal conversion of debt into equity is often allowed by the bank which often puts them in a disadvantageous position. For instance, earlier before the RBI framed rules with regard to conversion of a part of the debt into equity, the companies were gaining unfair advantage by pricing the equity shares at a higher price, and providing the preference shares to the banks, with very limited voting rights. Earlier, there wasn't any kind of restriction on the limit up to which debt can be converted into preference shares, and therefore the present cap is 10% up to which debt equity swap with respect to preference shares is permitted. For instance, in 2010, Bheema Cement, got a restructuring package approved for itself and rescheduled its repayment of loans, in return for shares of the company and zero interest preference shares.

The small banks, who are usually in the consortium along with large lenders, usually complain that their interests are not taken care of because the nature of the arrangement is that if 75% of the creditors by value agree to a debt restructuring package, then it is binding on the remaining 25% creditors.

Realizing the gravity of the problem of rise in approval of CDR packages of a growing number of corporate, the RBI has framed new rules with respect to debt restructuring. For instance, according to the new rules, promoters of the company have been asked to bring in more equity to the company which will have to be deposited in a fresh escrow account till the company is revived. Similarly, promoters have been asked to suffer first losses instead of banks. Similarly, banks have been given new rights such as right to complain to the Institute of Chartered Accountants of India (ICAI) if such auditors are found out who have provided for clean balance sheets of companies undergoing financial trouble. Moreover, banks have the right to organize themselves in the form of a Joint Lending Forum (JLF) to protect their interests even before the debt becomes a non performing asset. This forum will work with the borrower to put the loan back on track and can also invite central or state government officials if a change in policy is required.

1.8 Recent Examples of CDR in India

Recently, the infrastructure company Lanco Infratech Ltd, which is involved in sectors like power, real estate, construction, got itself a revived debt restructuring package approved by both private and public sector lenders involving Rs 11,155 crore and conversion of Rs 3024 crore loan into equity. The banks and financial institutions agreed to the CDR package on 27th December 2013. The lenders include Allahabad Bank, Bank of Baroda, Canara Bank, Axis Bank, Andhra Bank, ICICI Bank, Oriental Bank of Commerce, Punjab National Bank, among others. The eventuality of lenders converting majority of Rs 3,024 crore of loans into equity and gain control over the company takes place if the company fails to service the restructured loans and defaults on repayments as agreed under the CDR package in seven years. The option of conversion of debt into equity will allow the lenders to gain control with a stake of 65.83% after expansion of their equity base.

In the year 2012, Neesa Leisure Ltd, which is involved in the hospitality sector, got a CDR package approved for itself and according to a public sector lender, the total exposure of banks has been Rs 400 crore. The lenders with significant exposure to NLL include ICICI Bank, Axis Bank and the Small Industries Development Bank. In March 2012, the rating agency ICRA downgraded its term loan servicing ability and also its non-convertible debentures were downgraded. The profits of the company had slowed down owing to factors such as rise in interest and financing expenses, large funding commitments on capital expenditure, and delay in one of its proposed IPOs. Also, the fund infusion from the company's promoters were not that good as was expected.

In 2013, Gammon India Ltd, the engineering and construction company, got itself a CDR package approved involving Rs 13,500 crore. The main reason identified by lenders was lowering profits owing to slow economic growth and delay in getting project approvals. The depreciation of the rupee has also had an impact on major infrastructure companies because they have been battling high borrowing costs which has made it difficult for them to repay their loans. Also, delays in seeking mandatory government approvals for execution of projects has affected the company's debt servicing ability. Clearly, these factors were outside the company's control and hence approval for a CDR package was granted. In Gammon India's case, banks have a fund based exposure of Rs 3500 crore and leading lenders are ICICI Bank ltd and Canara Bank Ltd.

Wockhardt, the pharma company, is an example of how companies through proper planning can use the CDR mechanism to get out of the mess and bring their business back on track. The company approached the lenders for approving a CDR package led by ICICI Bank. The lenders included domestic lenders, Foreign Currency Convertible Bond (FCCB) holders among others. Most secured loans were given by domestic lenders. The huge debt of Rs 3800 crore, difficult market conditions forced Wockhardt to take the CDR route in 2009. The company had to sell its non-core businesses like nutrition and animal health business to generate Rs 790 crore as was required under the CDR arrangement. However, the sale of these businesses helped the company to garner Rs 1297 crore of cash, which along with adequate amount of equity infusion by the promoters helped the company revive on its profits and get itself out of the CDR process. With renewed focus on core operations and streamlining of troubled business areas, financials of the company improved considerably.

1.9 Objectives

This project report aims to study and understand the corporate debt restructuring by analyzing some examples of CDR in India.

- To gain a basic understanding of CDR.
- To study the CDR mechanism in India as per RBI guidelines.
- To explore a few examples of CDR in India and study the factors leading to CDR.
- To understand the effect of CDR through these examples.
- To study the impact of CDR on six companies financial performance.

2. LITERATURE REVIEW

C S Balasubramaniam (2013) conducted a research on Corporate debt Restructuring from both the bank and corporate prospective. The research uses data from RBI Monthly bulletin to study the significant increase in the number and volume of advances being restructured by the banks under the Scheme in the recent years. It's finds that Restructured Standard Advances have increased comparatively to the Gross Advances provided by banks in recent years.

Particulars		**Mar.2009**	**Mar.2010**	**Mar.2011**	**Mar.2012**
Gross Advances	Gross advances (Cr.)	27,53,365	32,27,287	39,82,954	46,55,271
Restructured Standard Advances (RSA)	RSA (Cr.)	75,304	1,36,426	1,37,602	2,18,608
Restructured to Gross Advances	Ratio (%)	2.73	4.23	3.45	4.68

Source: RBI Monthly Bulletin, September 2012

Figure 2.1 Restructured to Gross Advances Ratio

Due to the extraordinary rise in the cases referred to and restructured under the scheme, serious attention has been drawn as to whether this indicates a general downturn or gross misuse of CDR mechanism by the corporate borrowers and the lending institutions. It furthers examines the Restructured Standard Advances breakdown in various sectors. The reason for choosing the data on RSA is to probe the possibilities of unviable accounts being restructured along with providing more time for the companies to improve their finances and move on the path of recovery.

The findings of the study are

- CDR as an instrument has been used by the banks as well as the borrowers for more than a decade now. The CDR mechanism has been devised as an institutional mechanism to support the large, viable accounts, judiciously and to preserve the values of large exposures of banks.
- RBI Guidelines on CDR have acted as a moral alarm on the banking system to prevent misuse or abuse of the framework of CDR guidelines. Overall, the RBI framework has been a guiding post for the banks over the recent decade of recession and difficulties both for the banks and the borrower industries.
- RBI Committee headed by Shri. Mahapatra has recommended withdrawal of regulatory forbearance on asset classification on restructuring considering the current macroeconomic situation and global situation for a period of two years. This recommendation would provide necessary fillip to the ailing companies.
- Against the scenario of introduction of BASEL III guidelines to the banks in the economy, it is appropriate that the asset classification, provisioning and capital adequacy provide adequate cushion against temporary cash flow problems and related sickness of the borrowers and enable to recover and reach the healthy and profitable status in the specified time period.

Gagan Singh at el. (2010) has conducted research on **Impact of Disinvestment on the Financial and Operating Performance of Competitive and Monopoly units of Indian Public Sector Enterprises** and to study the impact of disinvestment, a hypothesis was used. To test this hypothesis tools such as Ratio Analysis, mean, standard deviation, co-efficient of variation and student 't' test were used.

Decentralized Creditor-Led Corporate Restructuring Cross-Country Experience', Marinela E. Dado at el. (2002) talks about the CDR mechanism being followed worldwide. According to this paper, internationally, the key objectives of corporate debt restructuring strategies have been to support an economy-wide recovery through:

(i) Facilitating the exit of nonviable firms (i.e., firms without a reasonable prospect of achieving sustainable profitability);and

(ii) Enabling the timely restructuring of debt and access to sufficient financing to sustain viable firms.

Corporate debt restructuring can take many forms as discussed above. To be successful in securing the longer term viability of corporates, debt restructuring will often be accompanied by operational restructuring addressing the structure and efficiency of the firm's business through closures and reorganization of productive capacity.

The CDR approaches that are being followed worldwide can be grouped under three main heads:

A case by case, market-based, approach has been used in which private sector debtors and creditors are generally left to determine the nature, scope and terms of the burden sharing on a case by case basis and principally relying on market solutions (e.g., Hungary and Poland in the 1990s, Korea, Malaysia, and Thailand in the late 1990s). While this approach is essentially market-oriented, the government would still have an important role through implementing legal reforms to encourage timely market-driven restructuring. Furthermore, fiscal support (if any) in this approach would be on an indirect basis through support of the financial sector (e.g., use of public funds to recapitalize domestic banks that meet certain soundness requirements, and thereby strengthen the capacity of those banks to absorb losses within debt restructuring).

An across the board approach involves direct government involvement that determines the method and distribution of burden sharing among relevant parties. Under this approach, the relevant solutions are generally applicable across the board to all economic agents in the pre-specified category, regardless of individual factors. There are two alternative characteristic features of this approach. The first is direct fiscal support to corporates, which could range from a predetermined amount of support for specified purposes (e.g., to protect against foreign exchange rate risk), to tax and other fiscal-related incentives for firms that engage in restructuring. The second is a legislatively mandated absorption of losses by creditors; such a strategy should be avoided given the risks of legal challenge and undermining the credit culture of a country.

An intermediate approach has been applied that relies on case by case negotiations, supported by government financial incentives, bolstered by legal and regulatory reforms, and establishment of public entities to galvanize debt restructuring.

A good CDR mechanism must discourage strategic behavior by creditors and debtors and should not discriminate between foreign and domestic creditors.

The so-called **London Approach** has influenced the evolution of government sponsored guidelines for multi-creditor out-of-court debt restructurings. Under the leadership of the Bank of England, UK banks developed the London Approach as a set of informal guidelines on a collective process for voluntary workouts to restructure debts of corporates in distress, while maximizing their value as going concerns. The London approach has involved an out-of-court accord, under regular contract or commercial law, to which all (or most) creditor institutions (are coerced to) sign on. With such an accord, agreements reached among the majority of creditors can often be enforced on other creditors without going through formal judicial procedures. Also, arbitration with specific deadlines, as well as specific penalties for failure to meet deadlines, can be made part of the accord, thus avoiding the formal judicial process to resolve disputes. Subsequently, countries facing wide scale corporate debt distress in the late 1990's turned to the London Approach as a basis to develop their own guidelines to encourage out-of-court corporate debt workouts. For instance, in Indonesia, Korea, Malaysia, and Thailand, the London Approach was modified through enhancing the centralized role of government agencies to provide incentives for restructurings. Furthermore, in these country cases, government enhancements were added to establish a more structured framework to support restructurings.

'Corporate Insolvency & Debt Restructuring - Examining the value of Voluntary Administration examines the role of Asset Financing Companies (AFCs) in CDR and tries to analyse the importance of such organizations in CDR. According to this paper, Around the world, Asset Management Companies (AMCs) have been used to spearhead the restructuring of corporate debt (with a view to maximizing asset recovery and supporting rehabilitation of viable corporates overtime) as well as to support the recovery of the banking sector (through transferring out bad assets, causing banks to recognize losses and allowing banks to focus on their core business). AMCs have proved relatively more effective in corporate debt restructuring episodes when there are a large number of troubled corporations, relatively homogeneous loans, or where AMCs bring specific restructuring expertise unavailable in the banks.

'Managing Corporate Distress -- Lessons from Asia', Michael Pomerleano, Lead Financial Specialist, Financial Sector Development Department, The World Bank October 19, 2000 talks about a few CDR cases in Asia.

	Voluntary corporate workout	Asset resolution company	Agency for bank recapitalization
Indonesia	Jakarta Initiative	Indonesian Bank Restructuring Agency	Indonesian Bank Restructuring Authority
Korea	Corporate Restructuring Coordination Committee	Korea Asset Management Corporation	Korea Deposit Insurance Corporation
Malaysia	Corporate Debt Restructuring Committee	Danharta	Danamodal
Thailand	Corporate Debt Restructuring Advisory Committee	Financial Sector Restructuring Authority, Asset Management Corporation (for non-bank financial companies)	Financial Restructuring Advisory Committee

Figure 2.2 Various CDR cases in Asia

The Case of Korea: Chaebol restructuring program involves the following:

- Commitment by the chaebol to improve transparency and corporate governance in general, through the adoption of international accounting standards, the adoption of combined financial statements, the appointment of external directors to corporate boards, and strengthening of shareholders rights
- Eliminating cross debt payment guarantees among subsidiaries;
- Improving the financial structure of the conglomerates, through the lowering of debt-equity ratios (the Korean government set the upper limit at 200%), the liquidation of unprofitable businesses and assets;
- Concentrating on core businesses;
- Strengthening the accountability of controlling shareholders and managers; in particular, controlling shareholders committed to place their personal wealth into recapitalization and loan guarantees.

‘Framework for Corporate Debt Restructuring in Thailand’, The Board of Trade of Thailand discusses the CDR mechanism being followed in Thailand. According to this paper, Corporate Debt Restructuring Advisory Committee (CDRAC) was set up in June 1998 to encourage debt restructuring process. Framework for Corporate Debt Restructuring in Thailand was approved in August 1998. BOT established Office for Corporate Debt Restructuring in December 1998 to closely monitor the progress of debt restructuring. DCA/ICA and SA help promote debt restructuring, Set clear procedure and time frame for debt restructuring cases, Target group of debtors to enter to corporate debt restructuring process and Set up dispute settlement procedure.

In order to urge debt restructuring process, the Debtor- Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA) were signed. DCA and ICA were used for debt restructuring cases with multiple creditors. A Simplified Agreement (SA) was established for the cases with less creditors or single creditor. ‘Corporate Debt Restructuring and Public Financial Institutions in Japan -Do Government-Affiliated Financial Institutions Soften Budget Constraints?’

In conclusion, numerous researches have been conducted on various approaches adopted by different countries for Corporate Debt Mechanism. Research has been conducted to understand the impact of CDR from prospective of banks and corporates using Restructured Standard advances. In this dissertation, research has been conducted to find the impact that CDR has on a Company’s financial performance. This has been achieved by following a similar research methodology as Dr. Gagan Singh et al. followed in “**Impact of Disinvestment on the Financial and Operating Performance of Competitive and Monopoly units of Indian Public Sector Enterprises”.**

3. METHODOLOGY

3.1 Research Overview

The purpose of the research is to conduct Paired sample t test for a sample of six companies gone through a process of CDR. Ten key ratios were observed for these 6 companies for 2-3 years before and after the CDR process. Paired sample t test was conducted for mean of the ratios before and after CDR process to observe any significant difference ($\alpha=0.05$) in their performance.

Hypothesis for t test

Null Hypothesis

H_O: There is no significant difference in the ratios before and after CDR, i.e., the ratios have not improved after CDR process.

Alternate Hypothesis

H_1: There is significant difference between ratios before and after CDR, i.e., the ratios have improved after CDR process.

3.2 Nature of study

The study is based on "Analytical Research" where, financial wellbeing of the companies before and after CDR process took place are compared.

3.3 Sources of data

Data was collected through various secondary data resources such as research papers, annual reports of company and research articles and news articles.

3.4 Tools and Techniques of analysis

For the purpose of analysis of the data, various accounting tools and techniques were applied. Ratio analysis, mean, standard deviation, co-efficient of variation and Paired sample student 'T' test were used.

Ratios

The **Interest Coverage Ratio** measures how many times over a company could pay its current interest payment with its available earnings. In other words, it measures the margin of safety a company has for paying interest during a given period, which a company needs in order to survive future (and perhaps unforeseeable) financial hardship should it arise. A company's ability to meet its interest obligations is an aspect of a company's solvency, and is thus a very important factor in the return for shareholders.

Inventory Turnover is a ratio showing how many times a company's inventory is sold and replaced over a period. It is an important ratio as it determines the effective buying habits and ability of a firm to convert inventory into cash

The **Receivables (Debtors) Turnover Ratio** indicates the efficiency with which a firm manages the credit it issues to customers and collects on that credit. Because accounts receivable are moneys owed on a credit agreement without interest, by maintaining accounts receivable firms are indirectly extending interest-free loans to their clients. As such, because of the time value of money principle, a firm loses more money the longer it takes to collect on its credit sales.

The **Current Ratio** is mainly used to give an idea of the company's ability to pay back its liabilities (debt and accounts payable) with its assets (cash, marketable securities, inventory, accounts receivable). As such, current ratio can be used to take a rough measurement of a company's financial health. The higher the current ratio, the more capable the company is of paying its obligations, as it has a larger proportion of asset value relative to the value of its liabilities.

Debt to Equity Ratio measures a company's debt relative to the total value of its stock, it is most often used to gauge the extent to which a company is taking on debts as a means of leveraging (attempting to increase its value by using borrowed money to fund various projects). A high debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. Aggressive leveraging practices are often associated with high levels of risk. This may result in volatile earnings as a result of the additional interest expense.

The **Return to Equity** is a profitability indicator. This ratio indicates how profitable a company is by comparing its net income to its average shareholders' equity. The return on equity ratio (ROE) measures how much the shareholders earned for their investment in the company. The higher the ratio percentage, the more efficient management is in utilizing its equity base and the better return is to investors.

PBIT/Sales is one of the profitability ratios and an important tool for financial analysis. It is the final output, any business is looking out for. This profit ratio is a ratio of profits before Interest and Taxes to the net sales of a firm. All the efforts and decision making in the business is to achieve a higher profit margin.

Asset Turnover Ratio (Sales/Net Assets) is the ratio of the value of a company's sales or revenues generated relative to the value of its assets. The Asset Turnover ratio can often be used as an indicator of the efficiency with which a company is deploying its assets in generating revenue.

Return on Total Assets (PBIT/Net Assets) is a ratio that measures a company's earnings before interest and taxes (EBIT) against its total net assets. The ratio is considered an indicator of how effectively a company is using its assets to generate earnings before contractual obligations must be paid.

Measure of Central Tendency or Averages Mean

To find average of various financial ratios before and after Corporate Debt Restructuring took place.

$$\bar{x} = \frac{\Sigma \mathrm{x}}{N}$$

Standard Deviation

In order to find out the absolute dispersion in the various financial ratios over the period of 2-3 years, standard deviation has been applied on the data collected through various annual reports of the Companies.

$$\sigma = \sqrt{\frac{\Sigma x^2}{N}}$$

Paired Sample T Test

Paired sample t-test is a statistical technique that is used to compare two population means in the case of two samples that are correlated. Paired sample t-test is used in 'before-after' studies, or when the samples are the matched pairs, or when it is a case-control study. T-test is used when standard deviation of the data sample is unknown and when the standard deviation of the data sample is known, z-test is used.

Steps:

1. **Set up hypothesis:** We set up two hypotheses. The first is the null hypothesis, which assumes that the mean of two paired samples are equal. The second hypothesis will be an alternative hypothesis, which assumes that the means of two paired samples are not equal.

2. **Select the level of significance:** After making the hypothesis, we choose the level of significance. In this research significance level is at 5 %.

3. **Calculate the parameter:** To calculate the parameter we will use the following formula:

$$t = \frac{\bar{d}}{\sqrt{s^2 / n}}$$

Where d bar is the mean difference between two samples, s^2 is the sample variance, n is the sample size and t is a paired sample t-test with n-1 degrees of freedom. An alternate formula for paired sample t-test is:

$$t = \frac{\Sigma d}{\sqrt{\frac{n\left(\Sigma d^2\right)-\left(\Sigma d\right)^2}{n-1}}}$$

4. **Testing of hypothesis or decision making:** After calculating the parameter, we will compare the calculated value with the table value. If the calculated value is greater than the table value, then we will reject the null hypothesis for the paired sample t-test. If the calculated value is less than the table value, then we will accept the null hypothesis and say that there is no significant mean difference between the two paired samples.

Assumptions:

1. Only the matched pairs can be used to perform the test.

2. Normal distributions are assumed.

3. The variance of two samples is equal.

4. Cases must be independent of each other.

4. DATA ANALYSIS

Paired sample t test was conducted for a sample of six companies gone through a process of CDR. Ten key ratios were observed for these 6 companies for 2-3 years before and after the CDR process. Paired sample t test was conducted for mean of the ratios before and after CDR process to observe any significant difference ($\alpha=0.05$) in their performance.

PBIDT/Sales(%)					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	9.43	11.57	2.73	7.91		-7.25	17.86		5.31	2.61	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	60.42	34.16	37.8	44.13		19.02	27.13	-4.3	13.95	30.18	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	17.92	15.09	-3.92	9.70		16.22	9.08	4.42	9.91	-0.21	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	14.29	8.28	15.57	12.71		-9.61	12.61		1.50	11.21	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	-10.9	12.73	8.29	3.37		15.35	-205.05		-94.85	98.22	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	26.1	27.87	-20.12	11.28		7.54	28.92	42.59	26.35	-15.07	
Sample Mean										21.16	
standard deviation										40.57666829	
n										6	
df										5	
t										**1.28**	
p-value										0.1288	>0.05
											no impact of CDR on this ratio

Figure 4.1

Sales/Net Assets					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	1.23	1.06	0.94	1.08		0.55	0.46		0.51	0.57	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	0.11	0.09	0.08	0.09		0.11	0.12	0.14	0.12	-0.03	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	1.27	0.92	0.76	0.98		0.67	0.7	0.88	0.75	0.23	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	0.46	0.62	0.33	0.47		0.17	0.11		0.14	0.33	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	0.26	0.32	0.47	0.35		0.24	0.2		0.22	0.13	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	0.69	0.67	0.58	0.65		0.68	1.12	1.68	1.16	-0.51	
Sample Mean										0.12	
standard deviation										0.3700427	
n										6	
df										5	
t										**0.80**	
p-value										0.2310	>0.05
											no impact of CDR on this ratio

Figure 4.2

PBIDT/Net Assets					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	0.12	0.12	0.03	0.09		-0.07	0.1		0.02	0.08	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	0.06	0.03	0.03	0.04		0.02	0.03	-0.01	0.01	0.03	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	0.23	0.14	-0.03	0.11		0.11	0.06	0.04	0.07	0.04	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	0.07	0.05	0.05	0.06		-0.02	0.01		-0.01	0.06	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	-0.03	0.04	0.04	0.02		0.04	-0.41		-0.19	0.20	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	0.18	0.19	-0.12	0.08		0.05	0.32	0.71	0.36	-0.28	
Sample Mean										0.02	
standard deviation										0.15896	
n										6	
df										5	
t										**0.34**	
p-value										0.3745	>0.05
											no impact of CDR on this ratio

Figure 4.3

Net Assets/Net Worth					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	2.43	2.63	3.51	2.86		6.51	6.69		6.60	3.74	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	5.63	5.96	6.74	6.11		11.36	32.31	-20.77	7.63	1.52	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	2.88	3.33	5.36	3.86		4.87	5.55	8.57	6.33	2.47	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	3.66	3.85	3.96	3.82		4.93	6.35		5.64	1.82	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	2.36	1.99	2.61	2.32		4.61	82.49		43.55	41.23	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	1.74	1.79	3.69	2.41		-35.12	17.06	1.61	-5.48	-7.89	
Sample Mean										7.15	
standard deviation										17.21179	
n										6	
df										5	
t										**1.02**	
p-value										0.1778	>0.05
											no impact of CDR on this ratio

Figure 4.4

ROE(%)					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	5.64	4.47	0	3.37		0	-55.3		-27.65	-31.02	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	19.15	5.05	3.42	9.21		0	0	0	0.00	-9.21	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	29.1	14.81	0.28	14.73		13.5	4.73	-35.98	-5.92	-20.65	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	8.43	3.29	0.47	4.06		-30.45	0		-15.23	-19.29	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	-17.01	-2.35	0	-6.45		0	0		0.00	6.45	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	29.23	21.58	0	16.94		0	231.48	61.53	97.67	80.73	
Sample Mean										1.17	
standard deviation										40.97955	
n										6	
df										5	
t										**0.07**	
p-value										0.4735	>0.05
											no impact of CDR on this ratio

Figure 4.5

Debt-Equity Ratio					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	0.96	1.25	1.73	1.31		3.13	4.83		3.98	2.67	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	2.96	3.28	3.89	3.38		6.31	13.63	0	6.65	3.27	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	2.01	2.14	3.18	2.44		3.9	4.19	5.69	4.59	2.15	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	0.99	1.14	1.25	1.13		1.67	2.66		2.17	1.04	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	1.23	1.14	1.23	1.20		3.35	7.09		5.22	4.02	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	0.86	0.76	1.54	1.05		3.18	1.96	0.66	1.93	0.88	
Sample Mean										2.34	
standard deviation										1.237417	
n										6	
df										5	
t										**4.63**	
p-value										0.0028	>0.05
											there is impact of CDR on this ratio

Figure 4.6

Current Ratio					CDR					
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference
	1.12	0.93	0.85	0.97		0.92	1.18		1.05	-0.08
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean	
	1.39	0.93	0.56	0.96		0.15	0.13	0.22	0.17	0.79
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean	
	1.02	1.13	1.02	1.06		0.81	0.74	0.86	0.80	0.25
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean	
	1.11	1	1.06	1.06		1.03	0.85		0.94	0.12
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean	
	1.36	1.23	0.84	1.14		0.67	0.89		0.78	0.36
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean	
	3.17	2.16	1.27	2.20		1.02	0.63	0.57	0.74	1.46

Sample Mean	0.48	
standard deviation	0.560862	
n	6	
df	5	
t	**2.11**	
p-value	0.0441	>0.05
		there is impact of CDR on this ratio

Figure 4.7

Interest Cover Ratio					CDR					
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference
	1.57	1.39	0.27	1.08		-0.51	-0.15		-0.33	1.41
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean	
	8.08	3.48	1.71	4.42		-0.04	0.03	-0.63	-0.21	4.64
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean	
	4.54	2.61	0.19	2.45		2.01	1.11	-0.05	1.02	1.42
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean	
	2.24	1.21	1.02	1.49		-0.53	-0.02		-0.28	1.77
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean	
	-0.09	0.67	0.84	0.47		-0.23	-0.17		-0.20	0.67
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean	
	30.1	8.41	0.89	13.13		1.79	3.53	3.6	2.97	10.16

Sample Mean	3.34	
standard deviation	3.611004	
n	6	
df	5	
t	**2.27**	
p-value	0.0363	>0.05
		there is impact of CDR on this ratio

Figure 4.8

Debtors turnover					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	4.01	4.63	3.72	4.12		3.21	3.06		3.14	0.99	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	13.46	12.94	11	12.47		11.45	11.02	12.29	11.59	0.88	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	11.17	8.48	8.01	9.22		6.45	6.23	6.51	6.40	2.82	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	2.69	3.77	1.92	2.79		1.09	0.89		0.99	1.80	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	0.9	1.65	2.4	1.65		1.96	1.45		1.71	-0.06	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	4.95	4.11	3.57	4.21		4.54	8.04	9.45	7.34	-3.13	
Sample Mean										0.55	
standard deviation										2.047925	
n										6	
df										5	
t										**0.66**	
p-value										0.2697	>0.05
											no impact of CDR on this ratio

Figure 4.9

Inventory turnover ratio					CDR						
Gammon India	Mar-11	Mar-12	Mar-13	Mean	Jul-13	Dec-13	Mar-14		Mean	Difference	
	4.03	3.4	2.78	3.40		2.36	2.32		2.34	1.06	
Hotel Leela Venture	Mar-09	Mar-10	Mar-11	Mean	Feb-12	Mar-13	Mar-14	Mar-15	Mean		
	11.71	10.52	9.49	10.57		9.83	10.62	12.95	11.13	-0.56	
Jindal Stainless	Mar-07	Mar-08	Mar-09	Mean	Aug-09	Mar-11	Mar-12	Mar-13	Mean		
	5.91	3.46	2.73	4.03		3.93	3.53	3.72	3.73	0.31	
Lanco Infratech	Mar-11	Mar-12	Mar-13	Mean	Dec-13	Mar-14	Mar-15		Mean		
	9.61	9.77	4.1	7.83		1.64	0.98		1.31	6.52	
Suzlon Energy	Mar-10	Mar-11	Mar-12	Mean	Jan-13	Mar-14	Mar-15		Mean		
	3.2	4.81	5.53	4.51		2.68	3.36		3.02	1.49	
Wockhardt	Mar-07	Mar-08	Mar-09	Mean	Apr-09	Mar-11	Mar-12	Mar-13	Mean		
	6.15	5.18	5.54	5.62		5.76	6.07	4.51	5.45	0.18	
Sample Mean										1.50	
standard deviation										2.560333	
n										6	
df										5	
t										**1.43**	
p-value										0.1054	>0.05
											no impact of CDR on this ratio

Figure 4.10

The results were as follows:

Ratios	P value
PBIDT/Sales(%)	0.1288
Sales/Net Assets	0.2310
PBIDT/Net Assets	0.3745
Net Assets/Net Worth	0.1778
ROE(%)	0.4735
Debt-Equity Ratio	0.0028
Current Ratio	0.0441
Interest Cover Ratio	0.0363
Debtors turnover	0.2697
Inventory turnover ratio	0.1054

As observed from the table the effect of CDR is only visible on Debt-Equity, Current ratio and Interest coverage ratio within the level of significance of 0.05.

These results indicate that the CDR process effecting only the D/E, Interest coverage ratio and current ratio. This is evident from the fact that the Debt of these companies are either converted to equity or revised. Secondly, reduced debt is also affecting the interest coverage ratio due to reduction in the interest liabilities.

On the other hand there is no significant difference observed in other performance ratios which indicate that the CDR process have not resulted into the better performance or any change in the performance of these companies.

Gammon India

Gammon India Limited is the largest civil engineering construction company in India. Headquartered in Mumbai, it was founded in 1922 by John C. Gammon.

In July, 2013, creditors approved a Rs.13,500 crore corporate debt restructuring (CDR) package for Gammon India Ltd, offering the engineering and construction company a breather from a crisis brought on by slower economic growth and project delays, but adding to the growing pile of restructured loans at banks.

Under the terms agreed for the CDR, the loan repayment was stretched to 10 years and Gammon India got a moratorium of two years on servicing it. The interest rate on the loan amount was reduced by 1-2 percentage points to 11-12%.

Gammon India and other infrastructure companies were struggling amid a slump in economic growth, which fell to a decade-low of 5% in the year ended March, as companies put new investments on hold. Infrastructure firms were also battling a credit crunch amid high borrowing costs that made it difficult for many borrowers to repay debt.

Delays in securing mandatory government approvals have stalled project execution and impeded cash flows at several infrastructure firms. In April, according to finance ministry estimates, about 215 infrastructure projects were stalled, involving a collective outlay of over Rs.7 trillion.

Shares of Gammon India surged as much as 9.6% in intra-day trading on investor speculation about the loan recast. They closed up 3.481% at Rs.19.4 on the BSE on a day the benchmark Sensex gained 1.22% to 19,410.84 points.

In Gammon India's case, out of the total debt amount, banks had a fund-based exposure of about Rs.3,500 crore. Non-fund exposure was mainly in the form of performance guarantees or similar facilities. Leading lenders to the company were ICICI Bank Ltd and Canara Bank Ltd. The individual exposure of each bank to Gammon India could not be ascertained.

As of 31 May, Indian banks had loans outstanding of Rs.7.7 trillion to the infrastructure sector. Under CDR, bankers typically extend the repayment period, cut lending rates and sometimes agree to forego a part of the money that's owed to them. Banks may also offer a repayment holiday. A CDR is approved if at least 75% of the banks by value of the loan and 60% by number agree to proposal.

For the quarter ended 31 March, Gammon India reported a net loss of Rs.124.98 crore, largely because of some one-off items on its overseas operations, which included provisions made by the company in connection with investments and advances.

On a cumulative basis, total restructured loans under the CDR mechanism have crossedRs.2.29 trillion, or 4.4% of total loans given by Indian banks, as of March.. The total restructured assets of the Indian banking industry were found to be around Rs.4 trillion.

Indian banks began large-scale restructuring in the aftermath of the 2008 global financial crisis that followed the collapse of Lehman Brothers Holdings Inc.

Hotel Leela Venture

Incorporated in 1981 to set up and operate 5-star hotels, Hotel Leela Venture entered into a collaboration with Penta Hotels, UK, which was subsequently transferred to Kempinski Hotels, a European chain of 5-star deluxe hotels, owned by Lufthansa, the German airline. The Company entered into collaboration agreement with Penta Hotels Ltd. (Penta) for a period of 10 years for sales, marketing & technical know-how. Penta also agreed to provide full marketing support to the hotel including selling of the hotel by the 3 airline partners of Penta viz. Lufthansa, Swissair & British Airways.

The restructured repayment plan of the company was finally accepted by the lenders in September, 2014. It received a 24-month moratorium for the outstanding principal amount of Rs. 3,000 crore, it borrowed from a consortium of 17 banks.

It applied for corporate debt restructuring (CDR) in February 2012. At the September 12 CDR meeting held with the banks, Leela venture was told to repay its entire outstanding principal amount in eight years from January 2014. It also had to pool in all its hotel properties (other than the Bangalore hotel) as security against the loan amount from the CDR lenders.

The pooled securities included the company's hotels in Mumbai, Goa, Udaipur, Delhi and Chennai. As per the CDR package, Leelaventure was given a 23-month moratorium for the interest portion too. The total interest, at 11 per cent per annum, was converted into Funded Interest Term Loan (FITL) and needed to be serviced from January 2014.

Besides, the company agreed to sell its non-core assets and realise about Rs. 620 crore. It pursued an asset-light strategy for growth, by selling one of its existing hotels, taking it back on management contract and using the proceeds to cut debt, Vivek Nair, Vice-Chairman and Managing Director, Hotel Leelaventure Ltd, told Business Line.

The company's total debt was Rs. 4,300 crore. Besides the dues to the 17-bank consortium, it owed Rs. 900 crore to HDFC and SBI Singapore (in the form of ECB). For the Rs. 900-crore debt, which didn't come under the CDR mechanism, the company entered into a separate understanding with the lenders. The Bangalore hotel was with the lenders as security. Hence, the loan was serviced from the operating revenues of this property.

Jindal Stainless

A part of the O P Jindal group, Jindal Stainless Limited (JSL) is India's largest and the only fully integrated Stainless Steel manufacturer. Jindal Stainless has grown from an indigenous single-unit Stainless Steel plant in Hisar, Haryana, to the present multi-location and multi-product conglomerate. JSL is a globally recognized producer of Stainless Steel flat products in Austenitic, Ferritic, Martensitic and Duplex grades.

India's largest stainless steel producer Jindal Stainless Ltd was given the nod by Corporate Debt Restructuring Empowered Group to restructure its debt of over Rs 90 billion on August 24, 2012.

The debt of the company was largely on account of the one-million-tonne Orissa plant, which the company established at an investment of about $1.5 billion.

In the fiscal ended on March 31, 2012, the steel manufacturing company incurred a loss of Rs 1.03 billion on account of 33% increase in its interest cost during the year.

The company's debt-equity ratio in the fiscal 2011-12 was at 5:17 as compared to 4:04 in the 2010-11.

Lanco Infratech

The Board of Directors of Lanco Infratech Ltd approved allotment of 5,45,74,639 equity shares of Re 1/- each at an issue price of Rs. 6.23 per share to ICICI Bank Limited, as per the corporate debt restructuring package approved for the company.

Lanco, informed the BSE that the allotment was made on preferential basis under Chapter VII of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009.

The Paid-up Share Capital of the Company, after this allotment to ICICI Bank, a CDR lender, stands at Rs. 246.23 crore.

The equity shares allotted to ICICI Bank Limited shall be locked-in for a period of one year in terms of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, the statement added.

Suzlon Energy

Suzlon Energy Ltd surged over 2 per cent after it has been reported that the wind and power solution provider has finally got the terms and conditions of its corporate debt restructuring (CDR) package approved. Suzlon pared some of its morning gains and was trading 0.8 per cent higher at Rs 18.50 in a weak market. It has hit a high of Rs 18.80 and a low of Rs 18.40 in trade today.

"Under the CDR package, lenders are believed to have agreed to provide Suzlon with working capital of Rs 1,500 crore to keep its operations running. Bankers which have close to Rs 13000 crore exposures have also agreed to give the company a ten-year extension on the loan repayment including a two-year moratorium," ET NOW reported."The interest rate under the CDR package has been fixed at 11%, said a senior PSU banker familiar with the development.

The CDR cell is expected to give the restructuring package a formal sign off by the second week of January," said the report. The promoters will also be required to pump in Rs 2,500 crore of equity to the company by March 2016.

Wockhardt

Wockhardt Limited was the fifth largest pharmaceutical company in India before it got into financial trouble in 2008. The company moved to the corporate debt restructuring cell in the first half of 2009 to get out of the trouble that was rooted in a mounting debt burden and huge losses in complex currency derivatives. After two years of continuous losses, Wockhardt was able to come back in the third quarter of 2010. However, its hurdles and legal dispute continued till late 2012.

To come out of the crises, Wockhardt under the leadership of Habil Fakhruddin Khorakiwala, its Chairman, sold its noncore businesses, cut down costs, and kept a distance from derivatives. This ultimately revived the company, resulting in the fastest turnaround in Indian corporate history.

4.1 Conclusion

Even as the need for CDR has increased over time on account of greater exposure of banks to susceptible segments and erratic economic conditions among other factors, the success of CDR mechanism is being increasingly questioned in view of withdrawal of accounts due to package failures.

Through the cases studied and their analysis as well as by following the recent CDR cases, it can be inferred that corporate debt restructuring has not been much of a success, especially in the past few years in India. The performance of the company does not always improve as a result of a CDR. This can be attributed to the individual attitude of companies undergoing CDR as well as external conditions. As the analysis shows, the ratios that are affected by CDR are the debt equity ratios and the liquidity ratio, which do not have significant impact on the performance and profitability of the company.

The failure of cases being restructured can also be attributed to other reasons, including unenforceability of ICA as CDR mechanism is non-statutory in nature, delay in banks getting approvals from their respective boards and reluctance by the private sector and foreign banks to join the mechanism. Due to the lack of/inadequate data in the form of centralized database on clients, projects and industry, the restructuring proposals often vary from the actual.

However, CDR mechanism has not been a complete failure as it has helped quite a few companies turn around, and requires changes with the dynamic and competitive external environment. The Reserve Bank of India has an important role to play by paying heed to the smaller banks' concerns and therefore changing the present rules which provide for approval by 75% creditors by value of a CDR package, which is binding on the other creditors. RBI has already framed new rules in 2012 to allow banks to exercise further rights under the CDR programme.

However, there exist other issues like foreign lenders reluctance to be a part of the CDR process along with Indian banks, because they feel that the process is more favourable to Indian lenders.

4.2 Recommendations

The recent failure of CDR process does not mean the mechanism has lost its purpose. CDR over the years has played a worthy role for both the borrowers and banks in times of crisis and economic downturn. What is needed is a revamp of CDR in light of present macro and micro conditions. These could include realignment of the legal system with remedies available for the creditor as well as phasing out of curbs on asset classification and provisioning as it encourages the banks to only restructure viable accounts.

The following recommendations can be provided to increase the effectiveness of the whole CDR process.

- It is important that project appraisal standards are significantly enhanced so viability of the project is confirmed before being considered for restructuring. The promoters and senior management of the account should be willing to share the burden of restructuring, including sacrificing their managerial remuneration, and must have a clear vision.
- The success of CDR Mechanism depends essentially on close monitoring of each and every package approved for CDR and hence the monitoring mechanism should be strengthened.
- In cases where banks have to sacrifice by sanctioning restructuring, they should be allowed re-compensation when the borrowing unit turns around.
- It is critical that assessment and approval of the proposal takes place in a time-bound manner, say, within a specified number of days, as it is time which proves to be the key component in the turnaround strategy of a problem account.
- Apart from CDR, banks need a special resolution mechanism for the infrastructure sector. One measure that would provide an impetus to the financial system is setting up a special purpose infrastructure fund and/or development financial institution (DFI), which will lend to projects that require last-mile funding and are classified as stressed assets. India does not have even a single DFI.

4.3 Limitations of the Study

- Study has been conducted with data collected 2 -3 years before and after CDR process.
- Only six companies have been selected. Namely, Gammon India, Hotel Leela Venture, Jindal Stainless, Lanco Infratech, Suzlon Energy, Wockhardt
- Study has been conducted for companies operating in India.
- Recent CDR cases have been taken.
- It studies CDR from Company's perspective.
- Bank's perspective has not been studied.

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6. ADHERENCE SHEET

Particulars	Last Date	Signature of Mentors	
Title of the Project/Area of Topic Finalization	21-Jan-16		
Literature Review/Objectives of the study	02-Feb-16		
Methodology	18-Feb-16		
Questionnaire/Data Collection tools	03-Mar-16		
Data Collection	17-Mar-16		
Analysis	24-Mar-16		
Conclusion and Recommendations	01-Apr-16		
First Draft	15-Apr-16		
Final Report/Binding and Submission	03-May-16		

7. ANNEXURE

- CDR – Corporate Debt Restructuring
- DRT- Debt Creditor Tribunal
- DCA- Debtor Creditor Agreement
- ICA- Inter Creditor Agreement
- BIFR- Bureau of Industrial and Financial Reconstruction
- ICAI- Institute of Chartered Accountants of India
- JLF- Joint Lending Forum
- RSA- Restructured Standard Advances