Corporate Debt Restructuring - A new fad or path to future destruction

By Sanjeeva Narayan

While Greece may be leading the way in terms of restructuring of debt, corporations in India have also adapted to the fad and have been applying for restructuring left right and centre. The slowdown in the economy after 2010-11 has had a ripple impact on the fortunes of India Inc. and lenders alike. With gross domestic product (GDP) growth decelerating from 8.4 per cent in 2010-11 to the sub-five per cent level in the first three quarters of the current financial year, the number of companies seeking succour from lenders under the aegis of the corporate debt restructuring (CDR) cell had almost doubled since 2011. This scenario is unlikely to get any better at least in the foreseeable quarter, especially in the infrastructure sector. Given that majority of the stressed assets are on the books of public sector banks, more pain will be visible on their balance sheets going ahead. This would also mean higher capital requirement for these lenders since current norms require banks to set aside huge amounts of capital to cover stressed assets.

New Mechanism Introduced

In fact the Reserve Bank of India has provided banks which are struggling to cope with a mountain of bad debt with new ammunition to deal with defaulting companies. The banking regulator issued new norms for Strategic Debt Conversion (SDR) which will give lenders the right to convert their outstanding loans into a majority equity stake if the borrower fails to meet conditions stipulated under the restructuring package. Allowing loan conversion will now be a precondition for all debt restructuring. It thus, seems that while CDR was the norm for most borrowers and that might have taken them and the country into a dooms day, the mechanism of SDR will definitely help the banks and the companies to improve their leveraged position.

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