Corporate Debt Restructuring and its Impact on Financial Performance

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Abstract

The objective of this study is to understand the concept and process of corporate debt restructuring (CDR) for corporates in India. The author has identified 6 companies which have gone into CDR and analysed the financial performance of these companies 3 years prior to the year of going to CDR and 3 years after the year of CDR. A set of 10 financial ratios are examined as indicators of financial performance. These ratios are taken on the basis of assessing the liquidity, profitability, solvency positions of the company and additional ratios are included to assess the operational efficiency of the companies. The methodology adopted for the study is t-test. The findings reveal that the performance of the company does not always improve as a result of undergoing CDR. This can be attributed to the individual attitude of companies undergoing CDR as well as external conditions. The ratios that show improvement post CDR are the debt/equity ratio, current ratio and interest coverage ratios. This substantiates the concept of corporate debt restructuring which is undertaken to improve the companies' ability to service debt obligations which is evident in the improvements in solvency and liquidity ratios. The author recommends that it is imperative that the turnaround strategy for a company should not only be prudent but also timing is of essence when evaluating the changes in performance.

Key Words: Corporate Debt Restructuring, T-Test, Ratios, Solvency, Liquidity.

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