

Corporate Debt Restructuring- a Study on Indian Iron & Steel Industry

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ABSTRACT: In 2001, the RBI set up the corporate debt restructuring (CDR) mechanism as a voluntary mechanism to facilitate restructuring debts of viable corporates outside the normal insolvency law process. The main reason for such a sharp rise in CDR cases is the slowdown after 2008 that reduced margins while huge expansion in the years before the crisis made companies pile up debt. The Infrastructure sector accounts for the most number of cases followed by iron and steel sector. The Indian steel industry continued to showcase trends of higher consumption of finished steel and continued to be a net importer on account of increased demand for special grades of steel in the country. Prior to the economic crisis of 2008, several steel makers had taken huge debt exposure, due to good demand. In addition, the cost of raw materials had shot up in recent months due to the clamp on iron ore mining in several states. Now, raw material prices have gone up and the working capital requirement of steel companies have also gone up, putting pressure on margins. Higher interest rates have also affected the margins of steel producers.

In this background this research empirical study brings out an analysis of selected iron and steel companies performance of debt from financial year 2009 to 2013 based on selected financial variables and need for corporate debt restructuring mechanism was identified with the application of necessary statistical tools.

Key Words: Corporate Debt Restructuring, conversion of debt into equity, CDR Mechanism, and Steel Industry, Indian Steel Industry, performance of selected variable after 2008.

I. INTRODUCTION

Debt is one of the many ways that companies use to access capital. It is also a burden that can push them into insolvency. To prevent bankruptcies, in 2001, the Reserve Bank of India came up with Corporate Debt Restructuring (CDR), a mechanism that companies unable to pay off debts can use to stay solvent, restructure, and, finally, revive.

The mechanism is run by the country's financial institutions, including banks, to ensure timely and transparent restructuring of debts of companies that are viable but facing temporary difficulties. Its aim is to minimize losses to creditors and other stakeholders of companies through an orderly and coordinated restructuring programme. After the slowdown of 2008, there has been a spurt in the number of companies going for CDR.

A 1985 law, the Sick Industrial Companies (Special Provisions) Act, provides insolvency protection through the Board for Industrial and Financial Reconstruction (BIFR), but only to manufacturing companies that are more than five years old and whose losses are equal to or more than their net worth. Service providers such as airlines and information technology companies are outside its ambit. It was in 2001 that the RBI

came up with the CDR idea as an alternative to the BIFR process.

II. METHODOLOGY

The present study is dealt with a theoretical review about CDR mechanism in India, prospects of Indian Iron and Steel Industry, performance of selected variables during the study period 2009 to 2013 of selected iron and steel companies and recommendations.

1 STATEMENT OF THE PROBLEM

Due to global recession in 2008 all the industries performances are affected. The companies and the government is taking number of revival strategies among them the debt restructuring strategy is most significant, from this point of view the following part of the article deals with a theoretical review about corporate debt restructuring mechanism, its implementation procedure, the list of affected industries and its impact among the selected companies are discussed.

2 SOURCES OF DATA AND TOOLS USED FOR ANALYSIS

To carryout the analysis required secondary data were collected from equitymaster.com and statistical analysis were done with the help of SPSS

III. THEORETICAL REVIEW ABOUT CDR AND INDIAN IRON AND STEEL INDUSTRY

1.SHARP RISE IN CDR

The main reason for such a sharp rise in CDR cases is the slowdown after 2008 that reduced margins while huge expansion in the years before the crisis made companies pile up debt. The Infrastructure sector accounts for the most number of cases involving a debt of Rs.50239 cr. Followed by iron and steel sector involving a debt of Rs. 43,538 cr. It depends upon the nature of businesses that are cyclical, asset-heavy and have long working capital cycles are more prone to financial stress.

Asset-heavy businesses such as iron & steel need huge capital, and, by extension, debt, which is fine when things are good but may become a burden during periods of slowdown and high interest rates. The difficulties faced by iron & steel and textiles sectors are largely on account of market-related factors. Falling prices and lukewarm demand have hit profitability. This explains the presence of such a large number of iron & steel companies in the CDR list, besides infrastructure companies, which are facing stress due to high debt and interest rates and delays in clearances and land acquisition. Further, many times, sectors too dependent upon government policies/regulatory environment may also face financial stress.

2.BACKGROUND OF CDR IN INDIA

In 2001, the RBI set up the corporate debt restructuring (CDR) mechanism as a voluntary mechanism to facilitate restructuring debts of viable corporate outside the normal insolvency law process. The Indian CDR mechanism is largely based on the London Approach, formulated in the early nineties wherein creditors are encouraged to opt for out-of-court agreements following certain principles to “minimize losses to creditors, avoid unnecessary liquidation of viable debtors and offer continued financial support to viable borrowers.” The approach grew from the idea that in a multi-creditor restructuring, the lenders would probably achieve better returns through collective and coordinated efforts to rescue a firm in distress, rather than force it into formal insolvency. In 2008, comprehensive guidelines for both institutional restructure (CDR) as well as non-institutional restructuring (non-CDR) were issued. Master guidelines were issued in 2012. Following the report of the working group, the RBI revised the CDR Guidelines on 30 May 2013 bringing in several new and important changes.

3.CDR MECHANISM

The CDR mechanism can be used by companies under debt of more than Rs 10 crore from more than one lender. The lead lender, if it fears that the company will not be able to service

the loan under existing terms and conditions, can approach the CDR cell. After this, the company and its lenders work out a deal which involves one or more of these things increase in the loan tenure, cut in the interest rate, one-time settlement or conversion of the debt into equity. Hence the CDR mechanism is a voluntary, non-statutory system based on contracts signed by the borrowers and lenders (debtor-creditor agreements) and inter se agreements between the lenders (inter-creditor agreements). Restructuring would generally involve the alteration of the repayment period, amounts repayable, amount of instalments or the interest rate.

4.CONVERSION OF DEBT INTO EQUITY

As per the earlier norms, lenders were allowed to convert a part of the debt outstanding beyond seven years from the date of restructuring into equity. However, no regulatory cap on the amount of debt which could be converted was specified. This led to cases where a large proportion of debt would be converted into preference shares having no market value and adversely affecting the lenders. Following the working group recommendations, the 2013 Guidelines provide a cap of 10 per cent of the restructured debt which can be converted into preference or equity shares. Further, only listed companies can avail of this provision.

5.STRUCTURE OF THE CDR

The CDR system is implemented through a three-tier structure comprising the CDR standing forum and its core group; the CDR empowered group; and the CDR cell. The standing forum is a self-empowered body comprising all the banks and financial institutions participating in the system and is responsible for laying down guidelines and monitoring the process of corporate debt restructuring. The empowered group decides individual cases of restructuring and is comprised of representatives from banks and financial institutions at the executive director level. The CDR cell assists the standing forum and empowered group in all their functions.

6. THE COMPANIES ACT 2013 AND OTHER RELEVANT LAWS

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.

The guideline issued by the Securities and Exchange Board of India on issue of shares by a listed company provides flexibility on the lock-in of a fresh issue of shares that have been issued pursuant to a CDR process. These guidelines also

provide flexibility for pricing the securities that are issues under the CDR process. The Indian Takeover Code also exempts an acquirer of shares of a listed CDR company from making an open offer where the shares are acquired under the CDR process approved by the requisite number of shareholders by way of postal ballot.

CDR trends today

CORPORATE DEBT RESTRUCTURING (CDR) CELL PROGRESS REPORT (As on March 31, 2014)

(i) Overall Status (since inception)

(Rs. crore)

Total References Received by CDR Cell		Cases Rejected before admission or Approval		Cases under consideration of CDR EG		Total Cases Approved	
No. of cases	Aggregate Debt	No. of cases	Aggregate Debt	No. of cases	Aggregate Debt	No. of cases	Aggregate Debt
622	429989	107	53174	40	46520	475	330295

ii) Industry-wise Classification of Live Cases :

Sr. No.	Industry	No.	Aggregate Debt (Rs. crore)	Debt in %
1	Infrastructure	25	50239	20.72
2	Iron & Steel	53	43538	17.96
3	Power	15	26314	10.85
4	Textiles	45	20138	8.31
5	Ship-Breaking/Ship Building	4	16792	6.93
6	Telecom	5	10785	4.45
7	Construction	9	9487	3.91
8	Pharmaceuticals	11	9248	3.81
9	NBFC	5	6976	2.88
10	Sugar	18	5271	2.17
11	Petrochemicals	2	4851	2.00
12	Hospitality	10	4805	1.98
13	Paper/Packaging	14	4433	1.83
14	Engineering	6	3749	1.55
15	Computers	3	3282	1.35
16	Cement	9	3220	1.33
17	Coke & Coal	3	2771	1.14
18	Electrical	1	2117	0.87
19	Storage Media	1	2054	0.85
20	Automobiles	2	1729	0.71
21	Manufacture	4	1510	0.62
22	Ceramic Tiles	3	1362	0.56
23	Logistic	1	1083	0.45
24	Fertilizers	3	920	0.38
25	Auto Components	4	883	0.36
26	Service	2	778	0.32
27	Chemicals	3	705	0.29
28	Agro	1	599	0.25
29	Cables	3	579	0.24
30	Forgings	1	490	0.20
31	Glass	1	404	0.17
32	Metals (Non-ferrous Metals)	2	334	0.14
33	Electronics	1	177	0.07
34	Other (Jewel, Liquor, edible oil etc.)	1	152	0.06
35	Hospital & Healthcare	2	134	0.06
36	Processing	1	133	0.05
37	Rubber	1	113	0.05
38	Dairy	1	97	0.04

Sr. No.	Industry	No.	Aggregate Debt (Rs. crore)	Debt in %
39	Food & Food	1	69	0.03
40	Education	1	60	0.02
41	Irrigation	1	33	0.01
42	Plastic	1	26	0.01
TOTAL		280	242440	100.00

Source: <http://www.cdrindia.org/statistical.htm>

According to an RBI analysis carried out before the strict recast norms were announced, the rise in references to CDR could be partly due to excessive leveraging by a few borrowers during the economic boom. There were deficiencies in project appraisals conducted for cash-flow analyses and determination of the date of completion of projects. When commercial operations were delayed, a host of factors, including uncertainties surrounding a project, were cited as reasons. But in the case of uncertainties, these had to be accounted for during the appraisal of the project and a proper cushion had to be built to take care of these uncertainties.

7. GLOBAL STEEL INDUSTRY VS INDIAN STEEL INDUSTRY

While global industrial production in 2012 dropped to its lowest level since 2009, global steel production reached a record high of 1.55 billion tonnes, up by 1.2% as compared to 2011. The growth came mainly from Asia and North America while production in the European Union and South America decreased in 2012 compared to 2011. Global steelmakers continued to witness supply growth outpacing demand, with capacity utilisation rates remaining consistently below 80%. Subdued steel prices and a slowdown in demand growth from China continued to weigh on the global steel sector in the past year.

Annual production for Asia was 1.01 billion tonnes of crude steel in 2012, an increase of 2.6% as compared to 2011. China's crude steel production in 2012 reached 716.5 million tonnes, an increase of 3.1% on 2011, resulting in a hike in the country's share of world crude steel production from 45.4% in 2011 to 46.3% in 2012. The EU meanwhile recorded a decrease of 4.7% compared to 2011, producing 169.4 million tonnes of crude steel in 2012. Among specific countries, Germany produced 42.7 million tonnes of crude steel, a decrease of 3.7% on 2011. Italy produced 27.2 million tonnes, a 5.2% decrease over 2011. France's crude steel production in 2012 was 15.6 million tonnes, a decrease of 1.1%. Spain produced 13.6 million tonnes of crude steel in 2012, a 12.1% decrease on 2011. In 2012, crude steel production in North America was 121.9 million tonnes, an increase of 2.5% on 2011 while that for South America was 46.9 million tonnes, a decrease of 3.0% on 2011. The US produced 88.6 million tonnes of crude steel, 2.5% higher than 2011.

The past year proved to be a challenge for the steel industry with apparent steel usage

increasing at the slowest rate since 2009. The euro zone crisis persisted throughout 2012 and macro-economic pressures in major economies contributed significantly to the global slowdown. Lower industrial production and reduced investment in large scale infrastructure projects resulted in a marked decrease in the growth of steel demand from both the developed and emerging markets. Apparent global steel usage in 2012 had grown by only 1.2%. A modest pick-up in global steel demand is expected in 2013. Global apparent steel usage is forecasted to increase by 2.9% to 1.45 billion tonnes in 2013, following the slower-than-expected growth in 2012. Demand is likely to improve faster in emerging markets. Apparent steel use in China, the largest steel producer and consumer, is expected to grow by 3.5% in 2013 to 668.8 million tonnes following a 1.9% increase in 2012. There are trends of demand recovery in the property sector and the demand for infrastructure has also been strong since June, 2012. However, underlying demand in the EU is not expected to improve much in 2013 despite moderate restocking seen in the beginning of the year. Overall, steel demand is expected to remain weak due to the continuing economic crisis in the developed countries and the structural shift in the Chinese economy.

8. INDIAN STEEL INDUSTRY

During 2012, India maintained its ranking as the 4th largest steel producing country in the world behind China, Japan and the US with a crude steel production of 76.7 million tonnes (MT) representing a 4.3% growth over 2011. The Indian steel industry continued to showcase trends of higher consumption of finished steel and continued to be a net importer on account of increased demand for special grades of steel in the country. India's current per capita finished steel consumption at 57 kg is well below the world average of 217 kg. With rising income levels expected to make steel increasingly affordable, there is vast scope for increasing per capita consumption of steel.

Being a core sector, steel industry tracks the overall economic growth in the long term. Also, steel demand, being derived from other sectors like automobiles, consumer durables and infrastructure, its fortune is dependent on the growth of these user industries. The industry is largely iron-based through the blast furnace (BF) or the direct reduced iron (DRI) route. Indian steel industry is highly consolidated. About 60% of the crude steel

capacity is resident with integrated steel producers (ISP). But the changing ratio of hot metal to crude steel production indicates the increasing presence of secondary steel producers (non integrated steel producers) manufacturing steel through scrap route, enhancing their dependence on imported raw material.

The world Gross Domestic Product (GDP), as reported by the International Monetary Fund, witnessed a moderate growth of 3.2% in 2012 as compared to a growth of 4.0% in 2011. While the growth in the advanced economies was 1.2% in 2012 in contrast to 1.6% in 2011, growth in the emerging and developing economies fell to 5.1% in 2012 compared to 6.4% in 2011. There was a noticeable slowdown in the emerging market and developing economies during 2012, a reflection of the sharp deceleration in demand from key advanced economies. Global prospects have improved but the road to recovery in the advanced economies is still uncertain and volatile.

PROSPECTS

The Indian metals and mining sector is currently facing a multitude of challenges like weak macro environment, leveraged balance sheets and heightened regulatory risks. The sector has suffered valuation de-rating since FY12 due to various factors like environmental and regulatory concerns, cost increases, delayed projects and high interest rates. Government delays in allocating coal blocks for captive consumption by steel manufactures is seriously hurting the competitive edge of Indian steel sector. The same story is with iron ore. There are delays in allocating iron ore mines as well as approval for mining licenses. As a result no new investment on the ground in the steel sector is happening to add new steel capacities.

CRISIL believes that a large-scale financial restructuring that would significantly reduce finance costs and debt levels is essential to turnaround these companies. The restructuring would have to involve the conversion of a significant part of the debt to equity and/or writing off the debt. In the process, several hard decisions need to be taken both by steel companies and Financial Institutions in order to revive the sector and ensure its long-term survival.

Prior to the economic crisis of 2008, several steel makers had taken huge debt exposure, due to good demand. In addition, the cost of raw materials had shot up in recent months due to the clamp on iron ore mining in several states. Together with this, the import bill had inflated due to a depreciating rupee. Demand erosion for steel firms serving long products due to the economic slowdown has added to the woes of smaller manufacturers.

Now, raw material prices have gone up and the working capital requirement of [steel](#)

[companies](#) have also gone up, putting pressure on margins. Higher interest rates have also affected the margins of steel producers.

The net debt of India's top six steel producers, already high at a combined Rs. 152,557.48 crore, is likely to balloon with the rupee's depreciation against the dollar, making foreign currency loans and raw material imports expensive.

The woes of the steel sector, which began with the 2008 financial crisis, are likely to persist, giving the companies little respite. The top six Indian steel companies are Tata Steel Ltd., Steel Authority of India Ltd.,(SAIL), JSW Steel Ltd., Essar Steel India Ltd. Jindal Steel and Power Ltd.,and Bhushan Steel Ltd.,in that order.

India's top steelmakers, which expanded capacities by about 50 percent in the past two years anticipating a demand revival, have grappled with unsold inventory as infrastructure initiatives stalled.

Tata Steel fell 3.3 percent, the biggest decline since Sept. 30, 2013 to 394.70 rupees, while Steel Authority fell 3.2 percent, the most in four months, to 69.75 rupees at close in Mumbai. Tata shares have fallen 10 percent, while Steel Authority dropped 30 percent, in the past year. The benchmark S&P BSE Sensex has risen 5.1 percent in that period Steel is one of five industries that together draw 24 percent of bank loans and more than half of their non-performing advances, the Reserve Bank of India said in a Dec. 30 , 2013 report. Factors leading to bad loans include economic slowdown, "persistent" policy logjams, delay in project approvals and aggressive expansion leading to excess capacities, it said.

IV. RESULTS AND DISCUSSION

The following part provides an empirical analysis of the selected iron and steel companies who are top performers in BSE as on April 2014

Analysis of selected steel companies performance

The following section provides an empirical review of selected Steel companies' performance.

To carry-out the analysis a period of five financial years (from 2008-09 to 2012-13) secondary data were obtained from equitymater.com. Since 2008 was a crucial period the results will give an impact of the global crisis on the selected companies. The companies selected for the analysis are

- a)TATA Steels b) SAIL c) JSW
- d) JINDAL e) BHUSHAN Steels

Table 4.1 Performance of Net Sales (Rs. m)

Company	2008-09	2009-10	2010-11	2011-12	2012-13
TATA steels	1473292	1023931	1187532	1328997	1347115
SAIL	432187	405770	433994	466616	450872
JSW	159349	189571	241059	343681	382097
JINDAL	108747	110915	131122	182086	198068
BHUSHAN	49470	56033	70035	99612	107443
Mean	444609	357244	412748.4	484198.4	497119
SD	593433.7	395710.3	454693.3	493182.9	494757.8
CV	1.33	1.11	1.10	1.02	0.99

Source: computed

From the table 4.1 it is found that the mean performance of the selected companies during the study period is improved by 11.81%. This is due to overall increase of net sales performance of all the selected companies. From the co-efficient of variation it is observed that there is a negative trend ends with -0.34, it explains that there is a consistency is followed regarding the performance of selected companies.

Table 4.2 Performance of Profit After Tax (Rs. m)

Company	2008-09	2009-10	2010-11	2011-12	2012-13
TATA steels	49509	-20091	89827	53897	-70576
SAIL	62452	68970	50139	35935	23294
JSW	2749	15976	17540	5377	9631
JINDAL	30457	35730	37539	39649	29101
BHUSHAN	4248	8432	10074	10148	9069
Mean	29883	25817.58	41023.8	29001.2	103.8
SD	26644.21	27509.49	31568.82	20583.97	40451.82
CV	0.89	1.07	0.77	0.71	389.71

Source: computed

From table 4.2 it is observed that the results of profit after taxes during the study period 2012-13 is very inconsistent due to negative performance of TATA Steels Ltd., This is due to negative net cash flow, increase of current liabilities, increase of interest payments in the year 2012-13. Performance in the year 2010-11 and 2011-12 is more consistent.

Table 4.3 Performance of Net Working Capital (Rs. m)

Company	2008-09	2009-10	2010-11	2011-12	2012-13
TATA steels	236200	138850	158406	93255	19651
SAIL	178705	223491	126143	93290	52331
JSW	-31699	-26027	-61049	-82731	-67315
JINDAL	6739	8834	-39722	-18452	-27492
BHUSHAN	2403	-19705	-27151	-20522	5741
Mean	78469.6	65088.6	31325.4	12968	-3416.8
SD	120410.3	110892.6	102640.3	77725.03	45788.62
CV	1.53	1.70	3.28	5.99	-13.40

Source: Computed

Table 4.3 explains the working capital position of selected companies. It is observed that in the year 2012-13 there is a negative mean performance is observed in all the companies and the consistency position is also negative to the extent of -13.40 JSW's position is negative during the study period.

Table 4.4 Performance of Long Term Debt (Rs. m)

Company	2008-09	2009-10	2010-11	2011-12	2012-13
TATA steels	596149	528432	440048	452382	468576
SAIL	33817	75961	99709	123983	141532
JSW	131288	151400	113349	128891	173932
JINDAL	61405	77266	73776	111796	154016
BHUSHAN	69495	72608	109693	155288	216642
Mean	178430.8	181133.4	167315	194468	230939.6

SD	236212.9	196931.3	153244.9	145049.9	135864.2
CV	1.32	1.09	0.92	0.75	0.59

Source: Computed

It is found from the table 4.4 all the companies long term debt has been increased by 29.43 % when compared to 2008-09 to 2012-13. It is understood that the cost of debt is also increased and it will be affecting net profit. It is clear from the financial statements of the respective companies interest payment also increased during the study period.

Table 4.5 Performance of Net working capital to sales ratio (%)

Company	2008-09	2009-10	2010-11	2011-12	2012-13
TATA steels	16.0	13.6	13.3	7.0	1.5
SAIL	41.3	55.1	29.1	20.0	11.6
JSW	-19.9	-13.7	-25.3	-24.1	-17.6
JINDAL	6.2	8.0	-30.3	-10.1	-13.9
BHUSHAN	4.9	-35.2	-38.8	-20.6	5.3
Mean	9.7	5.56	-10.4	-5.56	-2.62
SD	22.08	33.75	29.77	18.72	12.59
CV	2.28	6.07	-2.86	-3.37	-4.80

Source: Computed

Table 4.5 explains the net working capital to sales ratio of selected companies. It is clear that it goes in a declining and negative trend during the study period. It is due the proportion of changes in current assets and current liabilities. It is given as follows in the table 5.6.

Table 4.6 Proportion of Changes in current assets and current liabilities

		TATA	SAIL	JSW	JINDAL	BHUSHAN
2008-09 & 2012-13	CA	+0.72%	-19.43%	+134.32%	+150.26%	+248.37
	CL	+72.91%	+33.12%	+125.89%	+232.52	+258.80

Source: Computed

Table 4.6 explains a comparative data of current assets and current liabilities of 2012-13 with the base year 2008-09 and it is observed that all the companies proportion of current liabilities have been increased hence it results in a negative net working capital and negative net working capital to sales ratio.

Table 4.7 Performance of Interest Coverage ratio (%)

Company	2008-09	2009-10	2010-11	2011-12	2012-13
TATA steels	3.9	1.5	3.3	2.3	1.8
SAIL	37.1	22.8	13.5	8.1	5.3
JSW	2.0	3.0	3.4	2.3	2.1
JINDAL	8.5	11.1	14.9	15.4	6.1
BHUSHAN	3.2	6.4	4.1	2.3	1.9
Mean	10.94	8.96	7.84	6.08	3.44
SD	14.83	8.57	5.84	5.78	2.09
CV	1.36	0.95	0.74	0.95	0.61

Source:computed

From table 4.7 it is found that interest coverage ratio during the study period is also in declining trend and the consistency position is decreasing, hence the companies have to take immediate steps to improve their working capital position, setting of both long term and short term debts to improve the interest coverage ratio.

TEST OF HYPOTHESIS

To examine the mean differences of the selected companies interest coverage ratio, null hypothesis has been framed.

H₀: There is no significant mean difference of performance of interest coverage ratio of selected companies.

H_a : There is a significant difference of mean performance of the selected companies interest coverage ratio.

To examine the hypothesis One Way ANOVA has been applied and tested the results are as follows:

Table 4.8 One-Way ANOVA

Source of variation	Sum of squares	Degrees of freedom	Mean square
Between samples	875.37	4	218.84
Within samples	748.34	20	37.42
Total	1623.71	24	

Source: Computed

From table 4.8 calculated F value is $F = 5.85$ at 5% level of significance

The table value at 5% level of significance is 2.87 hence the null hypothesis has been rejected and the alternate hypothesis has been accepted.

It is clear from the above said analysis the selected iron and steel companies debt proportion to be reduced, otherwise it leads to adverse effect in their financial statements.

Now the corporate debt restructuring mechanism will be a tool to stream line their debt utilization.

V. PRACTICAL CONCERNS UNDER THE CDR REGIME

During the negotiation process between the lenders, interse, and with the borrower-corporate, there are several issues that may arise that are worth taking a look at.

Invariably, promoters are hesitant to provide an unlimited and irrevocable 'Guarantee', which is important to note in cases where the promoter is not in control of, or responsible for the events causing the company to default. Imposing such a strict liability on promoters who no longer hold a stake in the company is not only unfair but superfluous. Moreover, a refusal by a promoter to provide a personal guarantee will only ensure that the CDR is denied and the corporate become non-performing asset.

The restructuring of overseas debts, or the restructuring of loans provided by non-CDR lenders, is generally restructured simultaneously or around the same time as the accounts eligible under the CDR mechanism. Once the LOA is issued, the

consent of the CDR lenders is required for the restructuring of such debts. Non-conformity of the terms of the non-CDR package with the terms of the CDR package may give rise to a time consuming approval process and delay the restructuring of the other debts.

Certain terms such as "moratorium", "interest payment" and "default events" stated in the original lending agreements, may be altered in the master restructuring agreement, which is considered to be sacrosanct. However, the lenders would insist that the original documents coexist with the master restructuring agreement, to the extent that the same are not inconsistent which each other. These may cause practical difficulties as many of the provisions of the master restructuring agreement may indirectly override some of the terms of the original agreements.

Restructuring requires a security to be created in favour of the CDR lenders. This can be challenging in cases where both CDR and non-CDR lenders are part of a consortium and the non-CDR lenders have not agreed to the terms offered to the CDR lenders.

VI. CONCLUSION

If the CDR process is to be judged from an independent perspective, it could be said that it is a beneficial process and mechanism which endeavors to help viable corporate to come out of financial crisis which may be faced by them due to several external factors. This mechanism is a step prior to liquidation and insolvency, which may not benefit a company or its lenders.

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