ABSTRACT

Indian Economy underwent a sea change after 1992-93 when the economy was opened up Globalization, Liberalization and privatization terms were coined and successfully marketed. Indian manufacturing firms started facing competition from global giants. In the decade of nineties, many firms underwent a business restructuring process whereby business models were adapted to suit the competitive environment. This eventually helped these firms to not only withstand competition but also emerge as globally competitive firms. On the other hand, some firms could not withstand competition and turned sick. One of the major concerns for the lenders and the government was to manage the non-performing assets (NPA) level of the banks and financial Institutions and also to restructure/revive the potential sick units. The Government of India along with Reserve Bank of India came out with various mechanisms for rehabilitation of sick industries. A question always arises whether the present mechanisms adopted by the banks and institutions are adequate or not. Post restructuring, the impact on the performance of the company is required to be looked into.

The literature review reveals that the work conducted by various researchers was tilted more towards identifying the causes of sickness in the industrial undertakings in India or the effectiveness/performance of financially restructured firms through Board for Industrial and Financial Reconstruction (BIFR) and comparison of performance of firms after restructuring on the BIFR platform vis-à-vis performance of US companies post-restructuring. This indicates that there is a need to study the impact of financial restructuring on the corporate performance in India.

The study also encompasses a comparison of the legal system and mechanism available for restructuring and winding up in developed and other developing countries vis-à-vis India. The comparison highlights that the financial
restructuring exercise is successful in developed countries as their restructuring mechanism are time bound and there is a close monitoring system. Moreover, there are independent professionals who play a vital role in time bound revival of sick firms.

Major objective of the thesis is to study the impact of financial restructuring on corporate performance. The data was collected from both the primary and secondary sources. The primary data was collected from respondents such as bankers, promoters and professionals who are active participants in financial restructuring exercise. A questionnaire was framed to know their perceptions on the type of units prone to sickness, the reasons for sickness/failure and the mechanism of restructuring preferred by them.

Financial statements of 146 firms both large and medium scale firms were analyzed and comparison of parameters such as sales, gross profits, net profits, gross assets, taxes paid by them to the government and current ratio, before and after restructuring was undertaken. Paired t-test was used to compare the performance of these firms before restructuring and after restructuring. The empirical results indicate that financial restructuring has a significant impact on the gross profit of large and medium sized firms in the long run.