PREFACE

Corporate are the life blood of an emerging economy like India where financial growth, development, modernization and industrial growth takes place because of their vision of organized, systematic and positive approach.

Corporates Inspite of their best efforts and intentions, sometimes find themselves in financial difficulty because of factors beyond their control and also due to certain internal reasons. For the revival of the corporates as well as for the safety of the money lent by the banks and FIs, timely support through restructuring in genuine cases is called for. However, delay in agreement amongst different lending institutions often comes in the way of such endeavors.

Based on the experience in other countries like the U.K., Thailand, Korea, etc. of putting in place institutional
mechanism for restructuring of corporate debt and need for a similar mechanism in India, a Corporate Debt Restructuring System was evolved, and detailed guidelines were issued by Reserve Bank of India (RBI) August 23, 2001 for implementation by banks. Based on the recommendations made by the Working Group to make the operations of the CDR mechanism more efficient, the announcement made by the Finance Minister in the Union Budget 2002-03, and consultations with the Government, the guidelines of Corporate Debt Restructuring system have since been revised and detailed hereunder for implementation by banks / FIs.

The RBI has instituted the Corporate Debt Restructuring (CDR) mechanism for resolution of NPAs of viable entities facing financial difficulties. The CDR mechanism instituted in India is broadly along the lines of similar systems in the U.K., Thailand, Korea and Malaysia. The objective of the CDR mechanism has been to ensure timely and transparent restructuring of corporate debt outside the purview of the Board for Industrial and Financial Reconstruction (BIFR), DRTs or other legal proceedings. The framework is intended to preserve viable corporates affected by certain internal / external factors and minimize losses to creditors / other stakeholders through an orderly and coordinated restructuring programme.

As on 31st March '03, 60 cases worth Rs. 44,369 crores has been referred to the CDR, of which 29 cases worth Rs. 29,167 crores have been approved for restructuring.
The thesis covers various aspects and issues relating to Corporate Debt Restructuring in India. It rightly takes into account the meaning and impact of NPA's and the guidelines issued by the Reserve Bank of India for their treatment.

The thesis covers the constitution of the Corporate Debt Restructuring mechanism in India. The thesis also throws light on classification of accounts registered under Corporate Debt Restructuring. Once the restructuring measures have been agreed by stakeholders, a complete restructuring plan is prepared which takes into account all the agreed restructuring measures. This includes establishment of a timetable and assignment of responsibilities. Usually, lenders will also establish a protocol for monitoring of progress on the operational restructuring measures. This would typically involve the appointment of an independent monitoring agency.

The thesis highlights the importance of debt restructuring for Industrial Growth and also importance of Corporate Debt Restructuring in International context. As seen from the Asian experience, in general, NPA resolution has been most successful when:

1. Flexibility in modes of asset resolution (restructuring, third party sales) has been provided to lenders.

2. Conducive and transparent regulatory and tax environment, particularly pertaining to deferred
loss write offs, Foreign Direct Investment and bankruptcy / foreclosure processes has been put in place.

3. Performance targets set for banks to get them to resolve NPAs by a certain deadline.

The thesis brings out the objectives of Corporate Debt Restructuring in India. The objective of the Corporate Debt Restructuring (CDR) framework is to ensure timely and transparent mechanism for restructuring the corporate debt of viable entities facing problems, outside the purview of BIFR, DRT and other legal proceedings, for the benefit of all concerned. The sick enterprises will became techno and economically viable and start production, and will start profit. Ultimately the banks and financial institutions’ NPAs will subistically be reduced and Banks will become healthier. More job opportunity will be created GDP will be increased and the thus there will be Country’s Economic Growth and National Goal will be achieved.

Suggestions are given for improvement of CDR scheme and also for improvement in controls for reducing NPA’s. CDR could be made more effective & efficient through strict policies for its use, compliance & monitoring for strengthening of the stake involved of share holders & for overall development of the economy.

"Finally we can say CDR to be a life boat for the drowning Corporates in the sea of competition & financial ups & down."