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# Corporate Debt Restructuring Mechanism in India

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## Introduction

There are occasions when corporate find themselves in financial difficulties because of factors beyond their control and also due to certain internal reasons. For the revival of such corporate as well as for the safety of the money lent by the banks and financial institutions, timely support through restructuring of 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 countries like the UK, Thailand, Korea, Malaysia, etc. of putting in place an 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 on August 23, 2001 for implementation by financial institutions and banks.

The Corporate Debt Restructuring (CDR) Mechanism is a voluntary non-statutory system based on Debtor-Creditor Agreement (DCA) and Inter-Creditor Agreement (ICA) and the principle of approvals by super-majority of 75% creditors (by value) which makes it binding on the remaining 25% to fall in line with the majority decision. The CDR Mechanism covers only multiple banking accounts, syndication/consortium accounts, where all banks and institutions together have an outstanding aggregate exposure of Rs.100 million and above. It covers all categories of assets in the books of member-creditors classified in terms of RBI's prudential asset classification standards. Even cases filed in Debt Recovery Tribunals/Bureau of Industrial and Financial Reconstruction/and other suit-filed cases are eligible for restructuring under CDR. The cases of restructuring of standard and sub-standard class of assets are covered in Category-I, while cases of doubtful assets are covered under Category-II.

Reference to CDR Mechanism may be triggered by:

- Any or more of the creditors having minimum 20% share in either working capital or term finance, or
- By the concerned corporate, if supported by a bank/FI having minimum 20% share as above.

It may be emphasized here that, in no case, the requests of any corporate indulging in fraud or misfeasance, even in a single bank, can be considered for restructuring under CDR System. However, Core Group, after reviewing the reasons for classification of the borrower as willful defaulter, may consider admission of exceptional cases for restructuring after satisfying itself that the borrower would be in a position to rectify the willful default provided he is granted an opportunity under CDR mechanism.

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**Objective of CDR**

The objective of Corporate Debt Restructuring mechanism as enunciated in the scheme evolved by Reserve Bank of India, the central bank of India are as given below:

1. To ensure timely and transparent mechanism for restructuring of corporate debts of viable entitles facing problems for the benefit of all concerned.
2. To aim at preserving viable corporate those are affected by certain internal and external factors.
3. To minimize the losses to the creditors and other stakeholders through an orderly and co-ordinate restructuring programme.

**Structure of CDR System**

The edifice of the CDR Mechanism in India stands on the strength of a three-tier structure:

**1. CDR standing Forum**

The CDR Standing Forum, the top tier of the CDR Mechanism in India, is a representative general body of all Financial Institutions and Banks participating in CDR system. The Forum comprises Chief Executives of All-India Financial institutions and Scheduled Banks and excludes Regional Rural Banks, co-operative banks, and Non-Banking Finance Companies,

It is a self-empowered body which lays down policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring and ensures their smooth functioning and adherence to the prescribed time schedules for debt restructuring. It provides an official platform for both creditors and borrowers (by consultation) to amicably and collectively evolves policies and guidelines for working out debt restructuring plans in the interest of all concerned. The Standing Forum monitors the progress of the CDR Mechanism. It can also review individual decisions of the CDR Empowered Group and CDR Cell. The Forum can also formulate guidelines for dispensing special treatment to cases which are complicated and are likely to be delayed beyond the time frame prescribed for processing. The Forum meets at least once every six months.

**2. CDR Empowered Group**

The individual cases of corporate debt restructuring are decided by the CDR Empowered Group (EG), which is the second tier of the structure of CDR Mechanism in India. The EG in respect of individual cases comprises Executive Director (ED) level representatives of Industrial Development Bank of India Ltd., ICICI Bank Ltd., State Bank of India as standing members, in addition to ED level representatives of financial institutions (FIs) and banks which have an exposure to the concerned company. The Boards of all institutions/banks authorize their Chief Executive Officers and/or Executive Directors to decide on the restructuring package in respect of cases referred to the CDR system, with the requisite requirements to meet the control needs.

While the Standing Members of EG facilitate the conduct of the Group's meetings, voting is in proportion to the exposure and number of the concerned lenders only. In order to make the Empowered Group effective and broad-based and operate efficiently and smoothly, the participating institutions and banks approve a panel of senior officers to represent them in the CDR EG and ensure that they depute officials only from among the panel to attend the meetings of EG. The representative has general authorization by the Boards of the participating FIs/banks

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to take decisions on behalf of their organizations regarding restructuring of debts of individual corporate.

The EG considers the preliminary Flash Report of all cases of requests of restructuring, submitted to it by the CDR Cell. After the EG decides that restructuring of a company's debts is prima facie feasible and the concerned enterprise is potentially viable in terms of the policies and guidelines evolved by Standing Forum, the detailed restructuring package is worked out by the referring institution in conjunction with the CDR Cell. However, if the referring institution/bank faces difficulties in working out the detailed restructuring package, the participating institutions/banks decide upon the alternate financial institution/bank which would work out the detailed restructuring package at the first meeting of the EG when the Flash Report comes up for discussion.

The EG is mandated to look into each case of debt restructuring, examine the viability and rehabilitation potential of the company and approve the restructuring package within a specified time frame of 90 days, or at best within 180 days of reference to the EG. The EG decides on the acceptable viability benchmark levels on the following illustrative parameters, which are applied on a case-to-case basis, depending on the merits of each case:

1. Debt Service Coverage Ratio
2. Break Even Point (operating & cash)
3. Return on Capital Employed
4. Internal Rate of Return
5. Cost of Capital
6. Loan Life Ratio
7. Extent of Sacrifice

The EG meets on two occasions to discuss (Flash and Final Report) in respect of each borrower account. This provides an opportunity to the participating members to seek proper authorization from their CEO/ED, in case of need, in respect of those cases where the critical parameters of restructuring are beyond the authority delegated to him/her.

Having regard to the varied features of the borrower-corporate and their promoters/sensors, they are classified into four categories for the purpose of stipulation of conditions. Borrower Class – A comprises companies affected by external factors pertaining to economy and industry. Class – B borrowers are such corporates/promoters who, besides being affected by the external factors, also have weak resources, inadequate vision and do not have support of professional management. Class-C borrowers are overambitious who have diversified into related/unrelated fields with/without lenders' permission and those classified in Class-D are financially undisciplined borrowers. The categorization of borrowers is decided by the EG after ensuring that all conditions being stipulated have been discussed with the borrower concerned by the referring institution. The decisions of the EG are final. If restructuring of debt is found to be viable and feasible and approved by the EG, the company is put on the restructuring mode. If restructuring is not found viable, then the creditors are free to take necessary steps for immediate recovery of dues and/or liquidation or winding up of the company, collectively or individually.

**Sanction and Implementation of Approved Packages**

In order to enhance the efficacy of CDR Mechanism a realistic time schedule has been prescribed by the CDR Standing Forum. Once the final restructuring plan is approved and

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confirmed by the Empowered Group, CDR Cell issues a Letter of Approval (LOA) for the Restructuring package to all the concerned lenders. The individual lenders are required to sanction the restructuring package within 45 days from the date of issue of LOA and thereafter fully implement it in the next 45 days.

The status of sanction and implementation of restructuring packages is reviewed frequently at Empowered Group meeting. However, in order to place greater emphasis on implementation of the approved packages, Standing Committee of Core Group Member Banks constituted by the Core Group takes up close monitoring to ensure that the packages are implemented expeditiously.

**3. CDR CELL**

The CDR Cell, the third tier of the CDR Mechanism in India, is mandated to assist the CDR Standing Forum and the CDR Empowered Group (EG) in all their functions.

All references for corporate debt restructuring by lenders/borrowers are made to the CDR Cell. It is the responsibility of the lead institution/major stakeholder to the corporate to work out a preliminary restructuring plan in consultation with other stakeholders and submit to CDR Cell. The CDR Cell makes initial scrutiny of the proposals received from the lenders/borrowers, in terms of the general policies and guidelines approved by the CDR Standing Forum, by calling for details of the proposed restructuring plan and other information and place for consideration of the CDR EG within 30 days to decide whether restructuring is prima facie feasible. If found feasible, the referring institution/bank takes up the work of preparing the detailed restructuring plan with the help of other lenders, in conjunction with CDR Cell and, if necessary, experts engaged from outside. If not found prima facie feasible, the lenders may start action for recovery of their dues.

The EG can approve or suggest modifications to the restructuring plan, but ensure that a final decision is taken within a total period of 90 days. The period can be extended up to a maximum period of 180 days from the date of reference to the CDR Cell, if there are genuine reasons.

**Legal Basis of CDR**

The legal basis to the CDR System is provided by the Debtor-Creditor Agreement (DCA) and the Inter-Creditor Agreement (ICA). All banks /financial institutions in the CDR System are required to enter into the legally binding ICA with necessary enforcement and penal provisions. The most important part of the CDR Mechanism which is the critical element of ICA is the provision that if 75% of creditors (by value) agree to a debt restructuring package, the same would be binding on the remaining creditors.

Similarly, debtors are required to execute the DCA, either at the time of reference to CDR Cell or at the time of original loan documentation (for future cases). The DCA has a legally binding 'stand still' agreement binding for 90/180 days whereby both the debtor and creditor(s) agree to 'stand still' and commit themselves not to take recourse to any legal action during the period. 'Stand Still' is necessary for enabling the CDR System to undertake the necessary debt restructuring exercise without any outside intervention, judicial or otherwise. However, the 'stand still' is applicable only to any civil action, either by the borrower or any lender against the other party, and does not cover any criminal action.

Besides, the borrower needs to undertake that during the 'stand still' period the documents will stand extended for the purpose of limitation and that he would not approach any other authority for any relief and the directors of the company will not resign from the Board of Directors during the 'stand still' period.

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**CDR Core Group**

The CDR Core Group is carved out of the CDR Standing Forum to assist the Forum in convening the meetings and taking decisions relating to policy, on behalf of the Forum. The Core Group consists of Chief Executives of IDBI, SBI, ICICI Bank, BOB, BOI, PNB, Indian Banks Association (IBA) and Deputy Chairman of IBA representing foreign banks in India.

The Core Group lays down the policies and guidelines to be followed by the CDR Empowered Group and CDR Cell for debt restructuring. The guidelines also suitably address operational difficulties experienced in the functioning of the CDR Empowered Group. The CDR Core Group also decides on the modalities for enforcement of the time frame. The Core Group also lays down guidelines to ensure that over-optimistic projections are not assumed while preparing/approving restructuring proposals especially with regard to capacity utilization, price of products, profit margin, demand, availability of raw materials, input-output ratio and likely impact of imports/international cost competitiveness.

**Members of the Core Group**

1. Chairman & Managing Director, Industrial Development Bank of India
2. Chairman, State Bank of India
3. Managing Director & CEO, ICICI Bank Limited
4. Chairman & Managing Director, Punjab National Bank
5. Chairman & Managing Director, Bank of India
6. Chairman & Managing Director, Bank of Baroda
7. Chairman, Indian Banks Association

**CDR Performance**

**CDR Performance**

**Rs. In Crore**

| | | **Total References Received** | | **Cases** | | **Cases under finalization of Restructuring packages** | | **Total Cases Approved (including cases withdrawn/ Exited/Merged after approval)** | |
|---|---|---|---|---|---|---|---|---|---|
| Sr. No | Report as on | No. of cases | Aggregate Debt | No. of cases | Aggregate Debt | No. of cases | Aggregate Debt | No. of cases | Aggregate Debt |
| 1 | 31.03.2009 | 225 | 95,815 | 29 | 5,018 | 12 | 4,261 | **184** | **86,536** |
| 2 | 31.03.2010 | 256 | 115,990 | 32 | 7,050 | 9 | 4,641 | **215** | **104,299** |
| 3 | 31.03.2011 | 305 | 138,604 | 42 | 9,667 | 21 | 18,023 | **242** | **110,914** |
| 4 | 31.03.2012 | 392 | 206,493 | 59 | 20,817 | 41 | 35,161 | **292** | **150,515** |
| 5 | 31.03.2013 | 521 | 297,990 | 87 | 36,894 | 33 | 32,083 | **401** | **229,013** |
| 6 | 30.06.2013 | 549 | 337,511 | 92 | 39,045 | 42 | 48,187 | **415** | **250,279** |



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**INDUSTRY WISE CDR PERFORMANCE & THEIRE SHARE**

**Rs. In Crore**

| Sr. No. | Industry | No. of Cases | Aggregate Debt (Rs. crore) | % of share | No. of Cases | Aggregate Debt (Rs. crore) | % of share | No. of Cases | Aggregate Debt (Rs. crore) | % of share | No. of Cases | Aggregate Debt (Rs. crore) | % of share | No. of Cases | Aggregate Debt (Rs. crore) | % of share | No. of Cases | Aggregate Debt (Rs. crore) | % of share |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 31.03.2009 | | | 31.03.2010 | | | 31.03.2011 | | | 31.03.2012 | | | 31.03.2013 | | | 30.06.2013 | | |
| 1 | Iron & Steel | 23 | 30169 | 35 | 25 | 36673 | 35.16 | 25 | 36673 | 33.1 | 31 | 39252 | 26 | 59 | 52682 | 23 | 61 | 53543 | 21.41 |
| 2 | Fertilizers | 8 | 8453 | 9.8 | 8 | 8454 | 8.11 | 8 | 8454 | 7.62 | 8 | 8455 | 5.6 | 8 | 8455 | 3.69 | 8 | 8455 | 3.38 |
| 3 | Textiles | 35 | 6097 | 7.1 | 47 | 8902 | 8.54 | 54 | 10227 | 9.22 | 59 | 11661 | 7.8 | 74 | 17767 | 7.76 | 76 | 20662 | 8.26 |
| 4 | Petrochemicals | 3 | 5493 | 6.4 | 3 | 5493 | 5.27 | 3 | 5493 | 4.95 | 3 | 5493 | 3.7 | 3 | 5493 | 2.4 | 3 | 5493 | 2.19 |
| 5 | Refineries | 1 | 4874 | 5.6 | 1 | 4874 | 4.67 | 1 | 4874 | 4.39 | 1 | 4874 | 3.2 | 1 | 4874 | 2.13 | 1 | 4874 | 1.95 |
| 6 | Cements | 6 | 4663 | 5.4 | 6 | 4663 | 4.47 | 8 | 5928 | 5.34 | 11 | 6595 | 4.4 | 11 | 6595 | 2.88 | 11 | 6595 | 2.64 |
| 7 | Telecom | 6 | 4378 | 5.1 | 7 | 5250 | 5.03 | 8 | 5427 | 4.89 | 9 | 9199 | 6.1 | 11 | 11681 | 5.1 | 11 | 11681 | 4.67 |
| 8 | Sugar | 18 | 4054 | 4.7 | 20 | 5328 | 5.11 | 23 | 6131 | 5.53 | 26 | 6733 | 4.5 | 27 | 7125 | 3.11 | 27 | 7125 | 2.85 |
| 9 | Power | 5 | 3486 | 4 | 7 | 3836 | 3.68 | 7 | 3836 | 3.46 | 9 | 4838 | 3.2 | 18 | 18460 | 8.06 | 18 | 18460 | 7.38 |
| 10 | Chemicals | 13 | 2717 | 3.1 | 13 | 2717 | 2.61 | 14 | 2823 | 2.55 | 15 | 2898 | 1.9 | 16 | 3213 | 1.4 | 16 | 3213 | 1.28 |
| 11 | Metals (Non-ferrous Metals) | 5 | 2171 | 2.5 | 5 | 2171 | 2.08 | 5 | 2171 | 1.96 | 5 | 2171 | 1.4 | 5 | 2171 | 0.95 | 5 | 2171 | 0.87 |
| 12 | Electronics | 2 | 2132 | 2.5 | 2 | 2132 | 2.04 | 2 | 2132 | 1.92 | 3 | 2521 | 1.7 | 7 | 2878 | 1.26 | 7 | 2878 | 1.15 |
| 13 | Infrastructure | 7 | 1844 | 2.1 | 9 | 5166 | 4.95 | 9 | 5166 | 4.66 | 13 | 16774 | 11 | 20 | 21912 | 9.57 | 24 | 34676 | 13.86 |
| 14 | Pharmaceuticals | 3 | 1012 | 1.2 | 6 | 2130 | 2.04 | 6 | 2130 | 1.92 | 9 | 3349 | 2.2 | 14 | 7895 | 3.45 | 14 | 7895 | 3.15 |
| 15 | Paper/Packaging | 9 | 933 | 1.1 | 11 | 1199 | 1.15 | 13 | 1886 | 1.7 | 17 | 2204 | 1.5 | 22 | 3187 | 1.39 | 24 | 5752 | 2.3 |
| 16 | Cables | 7 | 765 | 0.9 | 7 | 765 | 0.73 | 8 | 1201 | 1.08 | 8 | 1201 | 0.8 | 8 | 1201 | 0.52 | 8 | 1201 | 0.48 |
| 17 | Automobiles | 2 | 551 | 0.6 | 2 | 551 | 0.53 | 2 | 551 | 0.5 | 2 | 551 | 0.4 | 2 | 551 | 0.24 | 2 | 551 | 0.22 |
| 18 | Auto Components | 6 | 464 | 0.5 | 7 | 563 | 0.54 | 7 | 563 | 0.51 | 7 | 563 | 0.4 | 7 | 563 | 0.25 | 7 | 563 | 0.22 |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 19 | Wood Products | 1 | 463 | 0.5 | 1 | 463 | 0.44 | 1 | 463 | 0.42 | 1 | 463 | 0.3 | 1 | 463 | 0.2 | 1 | 463 | 0.18 |
| 20 | Engineering | 6 | 454 | 0.5 | 6 | 454 | 0.44 | 8 | 758 | 0.68 | 10 | 1039 | 0.7 | 11 | 1497 | 0.65 | 13 | 2354 | 0.94 |
| 21 | Ceramic Tiles | 5 | 333 | 0.4 | 5 | 333 | 0.32 | 6 | 374 | 0.34 | 7 | 775 | 0.5 | 9 | 2095 | 0.91 | 9 | 2095 | 0.84 |
| 22 | Ship-Breaking/Ship Building | 1 | 176 | 0.2 | 1 | 176 | 0.17 | 2 | 869 | 0.78 | 2 | 869 | 0.6 | 3 | 6213 | 2.71 | 3 | 6213 | 2.48 |
| 23 | Rubber | 3 | 167 | 0.2 | 3 | 167 | 0.16 | 3 | 167 | 0.15 | 3 | 167 | 0.1 | 4 | 196 | 0.09 | 4 | 196 | 0.08 |
| 24 | Hotels | 2 | 147 | 0.2 | 2 | 147 | 0.14 | 3 | 373 | 0.34 | 3 | 373 | 0.3 | - | - | - | - | - | - |
| 25 | Forgings | 1 | 112 | 0.1 | 1 | 112 | 0.11 | 1 | 112 | 0.1 | 1 | 112 | 0.1 | 1 | 112 | 0.05 | 1 | 112 | 0.04 |
| 26 | Glass | 2 | 82 | 0.1 | 2 | 82 | 0.08 | 2 | 82 | 0.07 | 3 | 486 | 0.3 | 3 | 486 | 0.21 | 3 | 486 | 0.19 |
| 27 | Plastic | 2 | 214 | 0.3 | 2 | 214 | 0.21 | 3 | 399 | 0.36 | 3 | 399 | 0.3 | 3 | 399 | 0.17 | 3 | 399 | 0.16 |
| 28 | Retail | - | - | - | 1 | 470 | 0.45 | 1 | 470 | 0.42 | 1 | 470 | 0.3 | 2 | 752 | 0.33 | 2 | 752 | 0.3 |
| 29 | Battery | 1 | 35 | 0 | 1 | 35 | 0.03 | 2 | 67 | 0.06 | 2 | 67 | 0 | - | - | - | - | - | - |
| 30 | NBFC | - | - | - | - | - | - | 2 | 214 | 0.19 | 6 | 6592 | 4.4 | 8 | 7316 | 3.19 | 8 | 7316 | 2.92 |
| 31 | Computer (Hardware/soft) | - | - | - | - | - | - | - | - | - | 3 | 1914 | 1.3 | 3 | 1914 | 0.84 | 3 | 1914 | 0.76 |
| 32 | Food & Food Processing | - | - | - | - | - | - | - | - | - | 3 | 525 | 0.4 | 5 | 780 | 0.34 | 5 | 780 | 0.31 |
| 33 | Hospital & Healthcare | - | - | - | - | - | - | - | - | - | 1 | 101 | 0.1 | 1 | 101 | 0.04 | 1 | 101 | 0.04 |
| 34 | Electrical | - | - | - | - | - | - | - | - | - | 2 | 3333 | 2.2 | 2 | 3333 | 1.46 | 2 | 3333 | 1.33 |
| 35 | Construction | - | - | - | - | - | - | - | - | - | - | - | - | 7 | 14362 | 6.27 | 7 | 14362 | 5.74 |
| 36 | Hospitality | - | - | - | - | - | - | - | - | - | - | - | - | 12 | 4951 | 2.16 | 13 | 4984 | 1.99 |
| 37 | Storage Media | - | - | - | - | - | - | - | - | - | - | - | - | 2 | 2754 | 1.2 | 2 | 2754 | 1.1 |
| 38 | Agri | - | - | - | - | - | - | - | - | - | - | - | - | 2 | 435 | 0.19 | 2 | 435 | 0.17 |
| 39 | Other (Dairy) | 1 | 97 | 0.1 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |

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|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 40 | Other (Dairy, Jewellery) | - | - | - | 4 | 779 | 0.75 | 5 | 900 | 0.81 | - | - | - | - | - | - | - | - | - |
| 41 | Other (Jewellery, Liquor, edible oil etc.) | - | - | - | - | - | - | - | - | - | 5 | 3498 | 2.3 | 9 | 4151 | 1.81 | 10 | 5442 | 2.17 |
| | **TOTAL** | **184** | **86536** | **100** | **215** | **104299** | **100** | **242** | **110914** | **100** | **292** | **150515** | **100** | **401** | **229013** | **100** | **415** | **250279** | **100** |



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## Conclusion

In a notification issued by RBI said that promoters of companies seeking debt recast could be allowed to bring in 50% of their sacrifice upfront and the balance within a period of one year. The RBI's decision follows representation by banks and the Indian Banks' Association that corporate houses are under stress and finding it difficult to bring in the promoters' share of sacrifice and additional funds upfront, on some occasions. According to RBI rules, promoters' sacrifice should be a minimum of 20% of banks' sacrifice. However, the promoters were required to bring in the funds upfront and not over a period of time.

## Reference

1. http://www.cdrindia.org/
2. http:/www.rbi.org.in