Corporate Debt Restructuring
Discussion: N Prabhalala

Ahamed and Mallick, 2015
Jain, Singh, and Thomas, 2015
Corporate Debt Restructuring

• Bankruptcy in India.
  – Multiple, old laws, overlapping jurisdictions,
  – Clogged court system
  – Pro-debtor to pro-nobody

• Efforts to speed judicial process
  – Fast track courts, DRTs and DRATs

• Efforts to mitigate need for courts
  – SARFAESI
  – CDR
Ahamed and Mullick

Before-after analysis of banks around CDR
- Treated = banks signing ICA
- Untreated = others
- Analyze DID
• This is a
  – Reasonable question to ask
  – Reasonable effort given the question and data

• I have some big picture questions
Comments

• Experiment design
  – Confounding effects of SARFAESI and DRT status resolution by courts.
  – Authors use falsification year of 2002. With reasonable policy response lags, this may or may not work.

• Is there endogenous selection in ICA/non-ICA?
  – Time variation?
  – Would like more to rule out unobservables.
• Technical point
  – Z-scores based on ROA, SD (ROA), Leverage.
  – This is standard. But is it time to move on? How about metrics based on market information?

• The paper assumes competition is at national level
  – Competition within micro sub-markets
  – Competition within products
  – A more granular analysis may be informative
Comments

• Does this pass an economic smell test?
  – Amounts in CDR not great.
  – Long-run trends in treated/non-treated similar. See Figures 3a and 3b
  – Parallel trends assumption?

• If the results are correct, what exactly is the channel?
  – Loans are in syndicates. Cross ICA lines
  – India went through a boom-bust cycle
  – NPL reporting a question mark. Practices may vary across ICA/non-ICA members
## Comments

<table>
<thead>
<tr>
<th>Year</th>
<th>N. Firms</th>
<th>Of which Debt Restructured data available for</th>
<th>N. Firms</th>
<th>Mean (Rs, billion)</th>
<th>Median (INR billion)</th>
<th>Total Debt restructured/ GDP, %</th>
<th>N. BIFR Firms</th>
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Table 3b

Evolution of (negative) return volatility

[-Log(sd(ROA))]
Table 3c

**Evolution of banking non-performing loans**

[Net NPL/Loans]

![Graph showing the evolution of banking non-performing loans from 1994 to 2012. The graph includes two lines, one for Member Bank NPL and one for Non-Member Bank NPL. The Genesis of CDR is marked on the graph.](image-url)
• Brief comments due to difficulties in access.

• This is a micro-level study, reasonable question to ask

• Basic conclusion is that CDR does not work.
• Implementation issues
  – Propensity scores or default probability control?
  – Would prefer multiple methods including size, prior performance, and industry matching (Barber and Lyon, 1996).
  – Would prefer medians rather than means in DID

• What is the counterfactual?
  – BIFR?
  – Or nothing?
  – Or cut in bank credit supply outside CDR?
• What did CDR buy banks and borrowers?
  – Need ex-post data on actual actions taken in CDR

• Post-CDR performance
  – Results have anti-mean reversion
  – They are likely stronger than what the paper finds
• Why does CDR not work?
  – Granular data on assets and liabilities.
  – Omitted data on types of firms

• Structural models of bargaining.
  – Does the nature of coalition affect outcomes?

• Data changes
  – Structural shifts in # CDR firms over time. More enter
  – CDR is a live process until exit.
  – We may have not seen it all for current firms.
• How to square with previous study?