Corporate Debt Restructuring
Discussion: N Prabhala

CAFRAL

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

Comments

- 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.

Comments

- 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

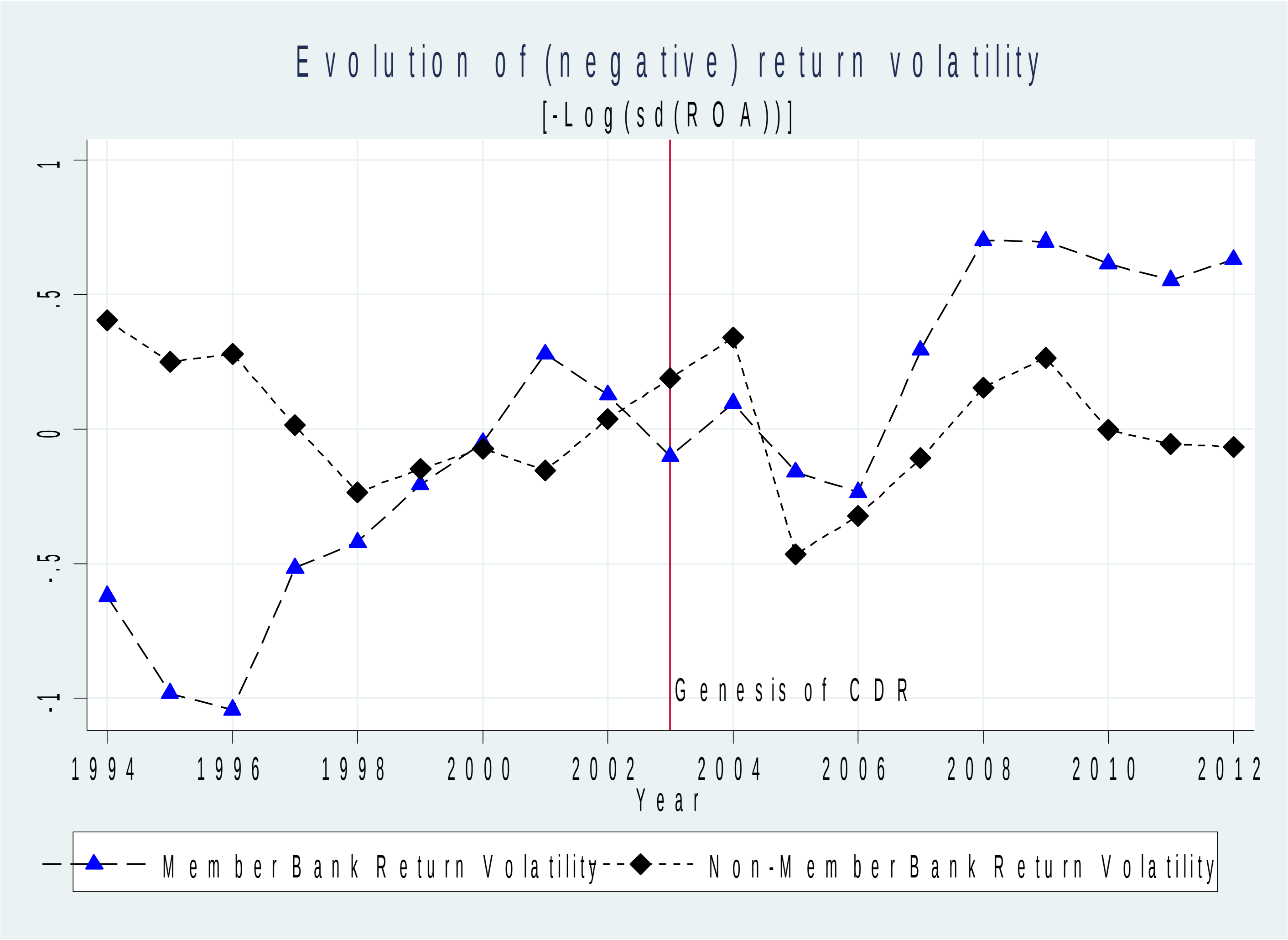
- Does this pass an economic smell test?
  - Amounts in CDR not great.
  - Long-run trends in treated/non-treated similar. See Figures 3a and 3b
  - Parallel trends assumption?

- 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

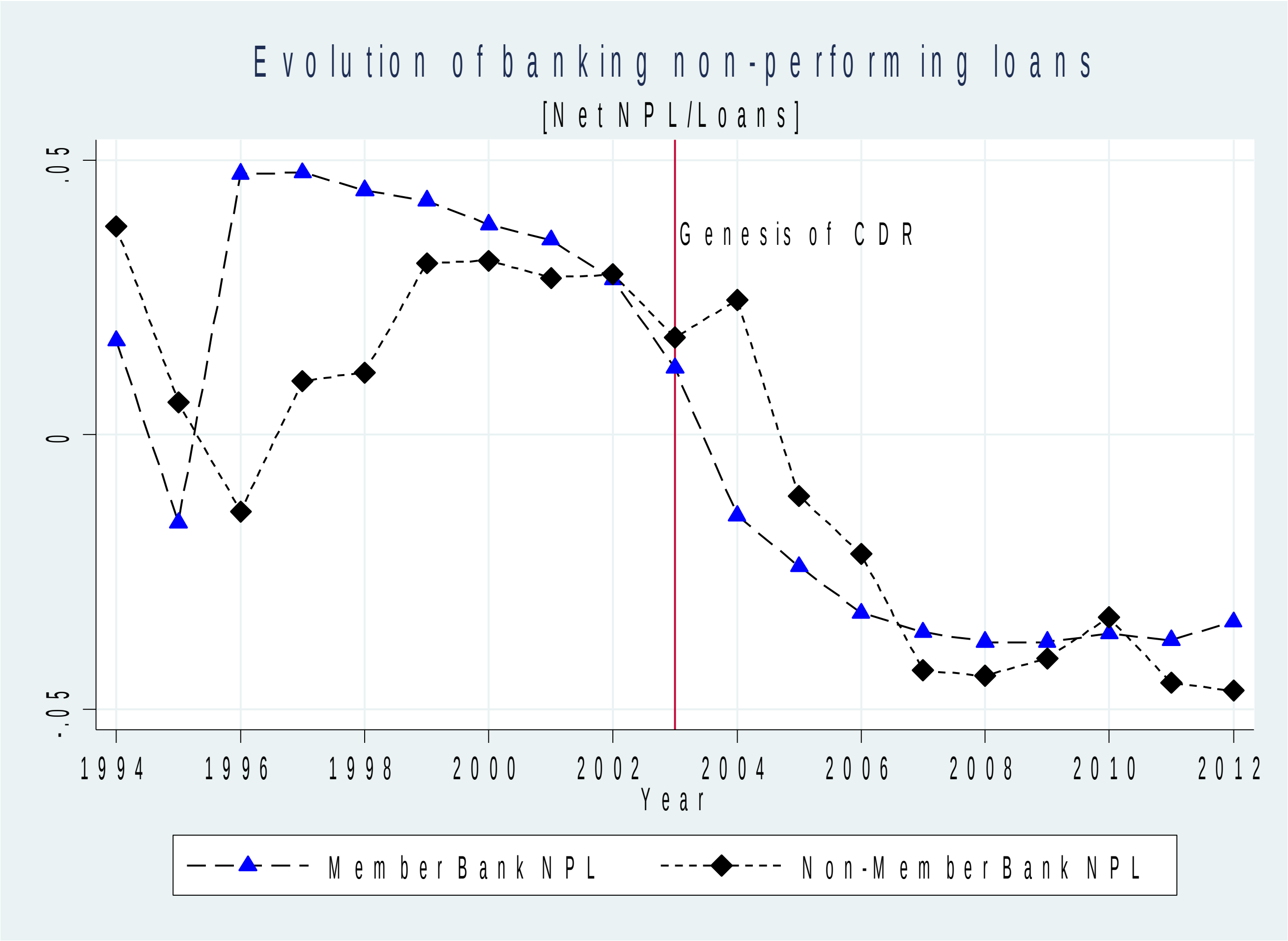
Year	N. Firms	*Of which Debt Restructured data available for*				N. BIFR Firms
		N. Firms	Mean (Rs, billion)	Median (INR billion)	Total Debt restructured/ GDP, %	
2002	3	1	2.3	2.3	0.01	
2003	54	16	3.7	1.7	0.23	2
2004	63	27	5.5	1.6	0.53	5
2005	38	21	3.5	1.6	0.23	4
2006	16#	13	1.9	1.0	0.07	3
2007	6	3	2.0	0.3	0.01	1
2008	8	6	4.5	4.6	0.05	2
2009	35#	33	6.7	2.3	0.39	
2010	31	25	9.6	3.0	0.37	1
2011	50	46	5.8	2.7	0.34	
2012	81	71	11.0	2.9	0.87	2
2013	98#	86	6.7	3.3	0.57	1
Total	**483**	**348**	**7.0**	**2.6**	**0.39**	**21**

Table 3b



Evolution of (negative) return volatility
[-Log(sd(ROA))]
1
.5
0
-.5
-1
Genesis of CDR
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Year
Member Bank Return Volatility
Non-Member Bank Return Volatility

Table 3c


Evolution of banking non-performing loans
[Net NPL/Loans]
.5
0
-.5
Genesis of CDR
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
Year
Member Bank NPL
Non-Member Bank NPL

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- 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.

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- 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?

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- 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

Jain, Singh, Thomas

- 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.

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- How to square with previous study?