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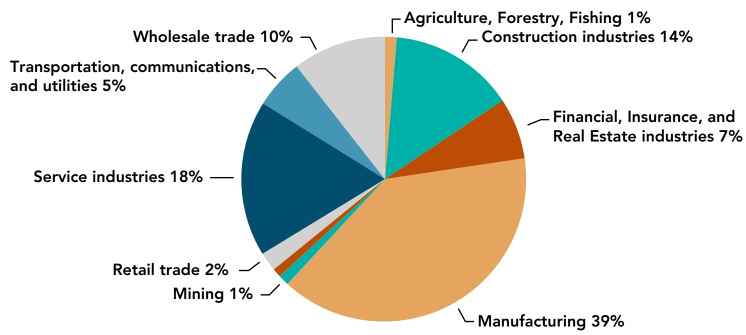
Dun & Bradstreet India Data Updates

Potential Risk in Business Failure: Filing Under Bankruptcy Law

There are more than 10,000 businesses that had suits filed on them under the Bankruptcy Law of India during Feb 18 - Mar 20, due to non-payment of dues. About 60,000 more businesses are related to them through linkages/common directorships. This information can be leveraged by companies to understand if their suppliers/customers are meeting their financial obligations.

Filing by Operational Creditors	Filing by Financial Creditors	Other Filings against business
6000	3000	1000
If operational creditor does not receive payment from the corporate debtor, the operational creditor may file an application	Financial creditors may file an application for initiating corporate insolvency resolution process against a corporate debtor	Part of Other filing under IBC Code

Industry wise breakup of 10000 companies having suits filed on them

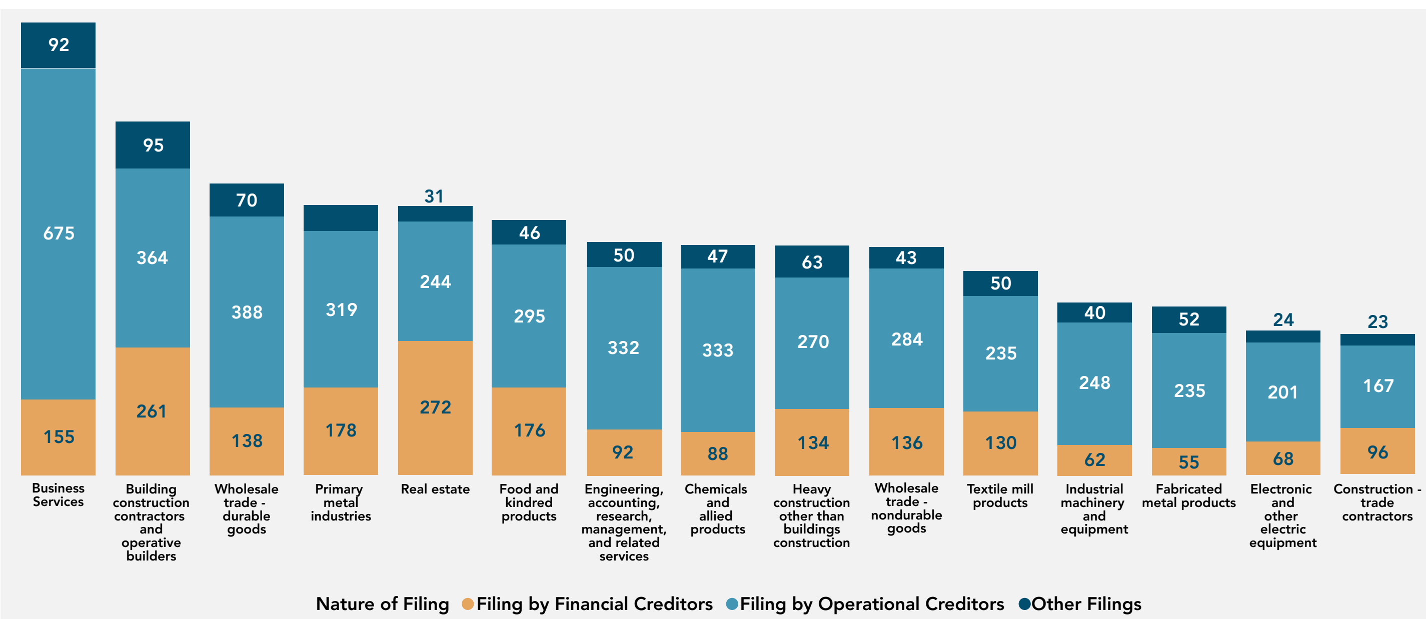


Manufacturing accounts for the highest number of suits filed at 39%, followed by Service Industries (18%) and Construction (14%)

Note: Period: Feb 2018 - Mar 2020

Top 15 Sub-Industry Classification

Business services account for the highest number of filed cases while the real estate sector has the highest number of cases filed by its financial creditors



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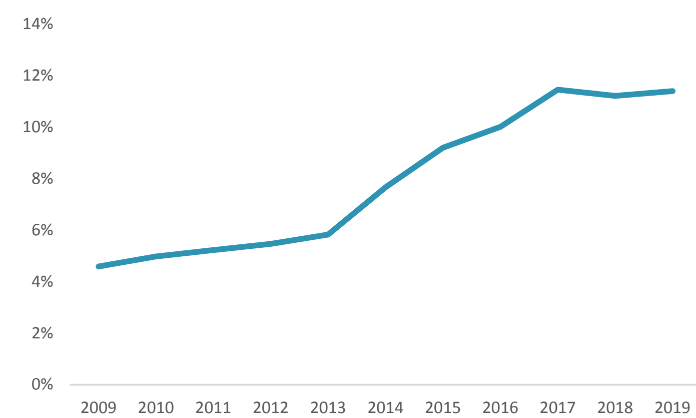
Zombie Firms in India

By Dr. Arun Singh, Chief Economist, Dun & Bradstreet

Zombie firms are those firms that do not generate sufficient profits to cover their debt servicing costs over an extended period. A study by the Bank for International Settlements (BIS) has found that Zombie firms have ratcheted up in the advanced economies since the late 1980s. We, at Dun & Bradstreet, find that there has been a proliferation of Zombie firms in India too. Our analysis of around 3,000 listed companies reveals that the share of Zombies has more than doubled from 4.6% in 2009 to 11.4% in 2019. We identify a company as a Zombie if its Interest Coverage Ratio (ICR) has been less than 1 for at least 3 consecutive years and if it is at least 10 years old. ICR is a measure of a company's ability to meet its interest payment. The inclusion of the second criterion – age – is necessary because start ups may need a few years to pass by before investment projects start to deliver returns. The increasing share of Zombies is driven by companies staying in the Zombie state for longer, rather than turning around their business or exiting through bankruptcy. The probability of a Zombie remaining a Zombie in the following year has increased from 63% in 2010 to 73% in 2019. The rise of Zombie firms has dire economic consequences. Several studies have shown that Zombies depress market prices, distort credit allocation, and crowd out both investment and employment at healthy firms. These disruptions impede business dynamism and weigh on the aggregate productivity of the sector and by large, the economy. Zombie companies also add to systemic risk.

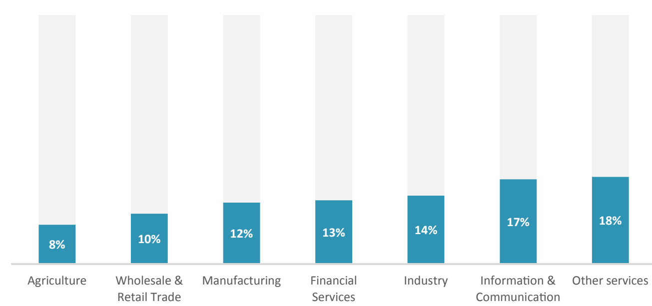
For companies conducting business with Zombie firms, setting up alerts for credit risk monitoring can be crucial right now, particularly for companies in sectors that are most affected by the COVID-19 crisis. Being notified of deteriorating credit scores and legal events (such as lawsuits and liens, which can signal a pending bankruptcy) is important. Monitoring can help companies stay ahead of additional, otherwise unforeseen circumstances that may require a level of decision-making and business readiness that would normally be overlooked when times are good.

Zombie firms as a % of listed companies



Note: N=~3,000 listed companies
Source: Dun & Bradstreet Analysis

Sector-wise share of Zombie firms in 2019



Note: Industry includes Mining, Utilities and Construction.
Source: Dun & Bradstreet Analysis