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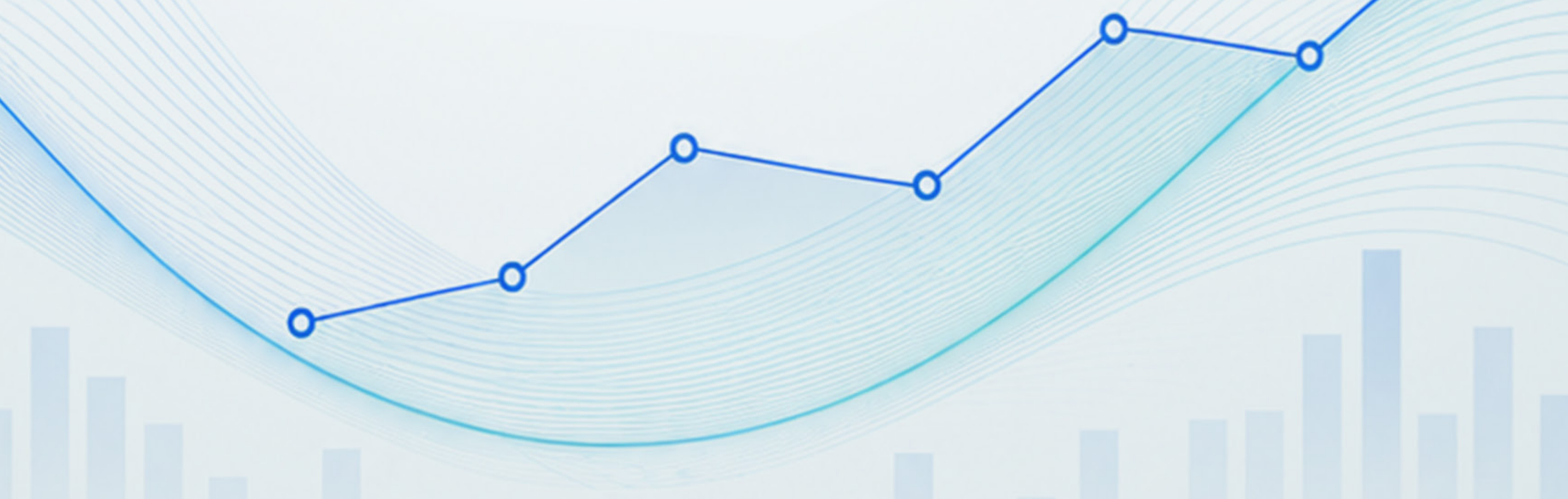


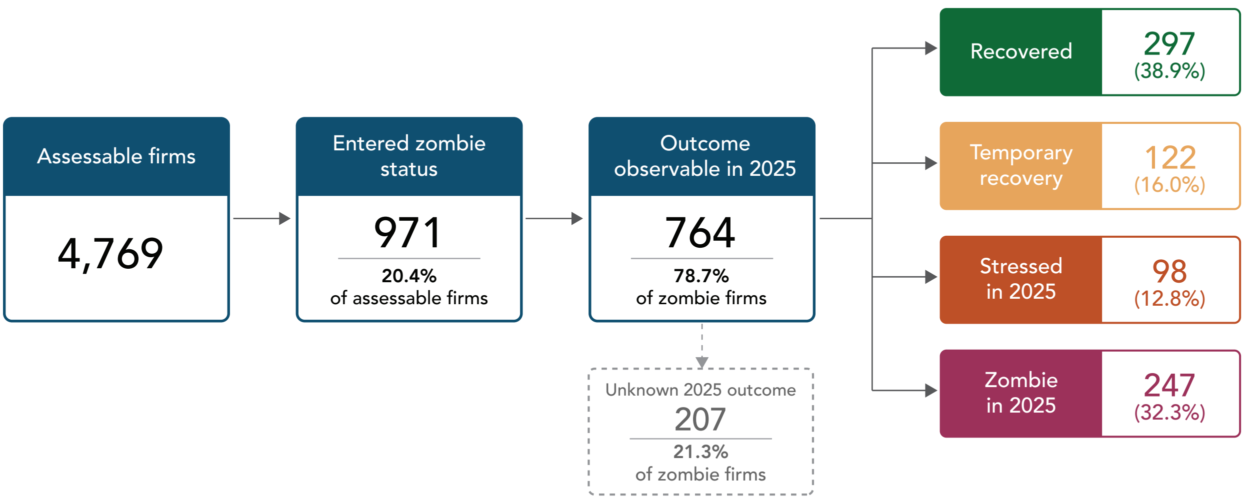
The Zombification Landscape and What Dun & Bradstreet's Failure Score® Reveals

A zombie firm refers to a company that remains operational despite being unable to generate enough earnings to meet its interest obligations over an extended period. Such firms continue functioning in the market but exhibit persistent financial fragility, limiting their ability to invest, expand, or strengthen their balance sheets.

To understand the prevalence of this phenomenon, Dun & Bradstreet assessed around 6,000 listed firms between 2015 and 2025 using the Interest Coverage Ratio (ICR)[1]. A firm with an ICR below 1 is considered Stressed for that particular year; when this stress persists for three consecutive years, it is classified as a Zombie. Furthermore, only around 81% of the overall universe had sufficient consecutive financial information to reliably assess this condition.

From stress to zombification: what happens next?

Assessable listed firms, 2015-2025



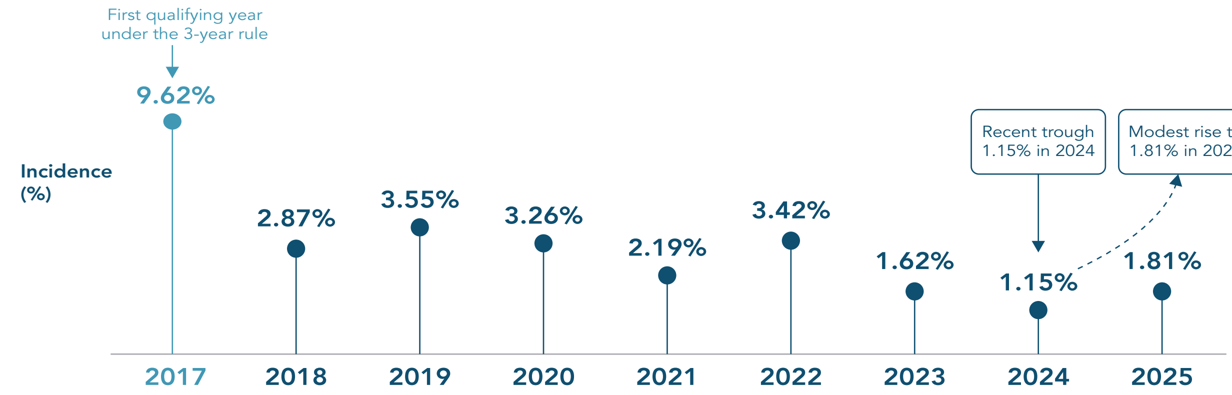
55% showed some degree of recovery; 45% remained financially distressed.

Source: CMIE, Dun & Bradstreet Research

[1] Calculated as PBIT (or EBIT) divided by interest expense.

New zombie formation has moderated

Annual first-time zombie incidence, 2017-2025



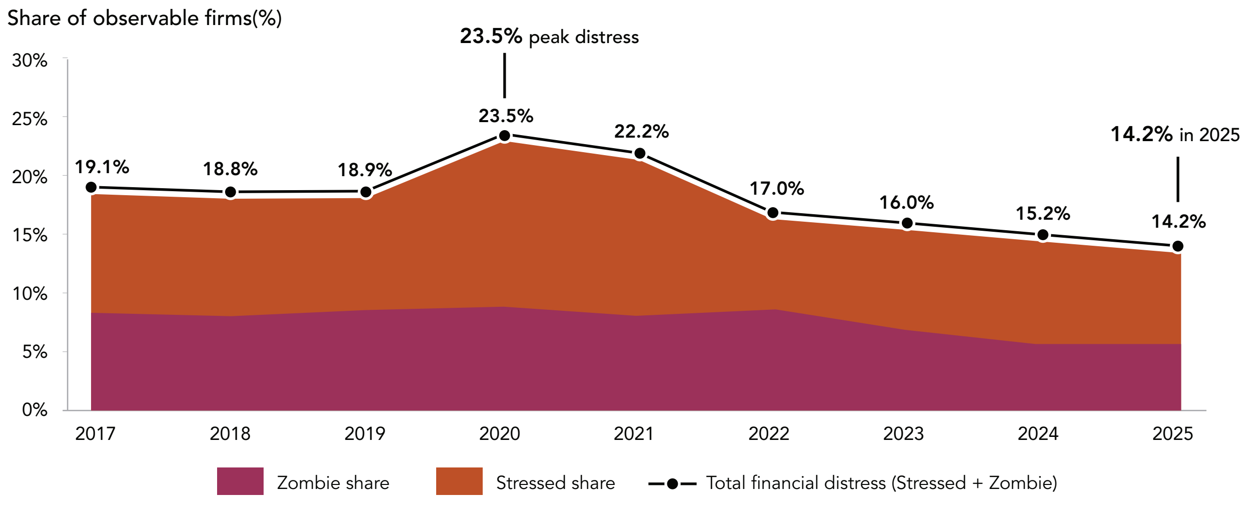
	2017	2018	2019	2020	2021	2022	2023	2024	2025
Newly classified zombie firms	322	91	116	106	71	113	53	38	61
At-risk firms (denominator)	3,348	3,174	3,264	3,249	3,247	3,301	3,271	3,303	3,362

Note: Incidence is the number of newly classified zombie firms as a share of at-risk firms.

Source: CMIE, Dun & Bradstreet Research

Financial distress has eased, but legacy stress remains

Share of observable firms classified as Stressed or Zombie, 2017- 2025



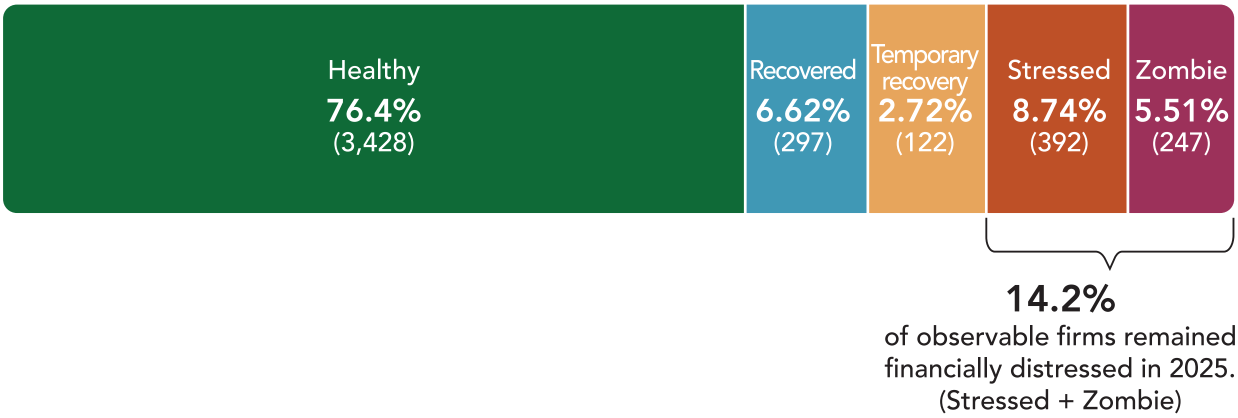
Zombie prevalence declined from **8.1%** in 2017 to **5.5%** in 2025.

Note: Percentages may not add due to rounding.

Source: CMIE, Dun & Bradstreet Research

The 2025 landscape is healthier, but a distressed tail remains

Financial position of firms with observable FY2025 status

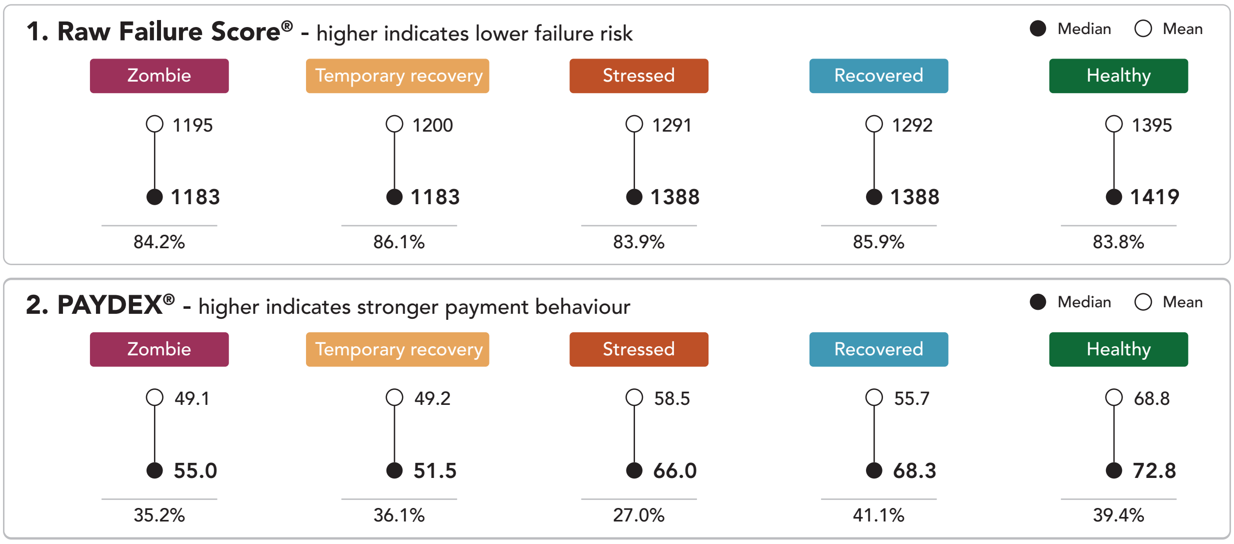


Please note: Stressed firms include all firms with an ICR below 1 in 2025 that do not currently qualify as Zombies, regardless of whether they had been classified as Zombies in an earlier period.

Source: CMIE, Dun & Bradstreet Research

Independent risk measures validate the classification

FY2025 Failure Score® and PAYDEX® across financial states



Recovered firms move materially away from zombie-level risk, but do not fully converge with consistently healthy firms.

Failure Score provides stronger validation given much higher and more balanced coverage.

Note: Stressed firms include both never-zombie firms and former zombie firms that remained stressed in 2025, which may explain their similarity with Recovered firms. The analysis uses D&B's Failure Raw Score®, not the 1–5 Failure Risk Class. The raw score provides a more granular measure of failure risk, with lower values indicating higher risk.

PAYDEX® measures a company's historical payment performance based on trade experiences reported to D&B, typically covering the past 12–24 months. Scores range from 0 to 100, with 80 indicating prompt payment, scores above 80 indicating payment ahead of terms, and lower scores reflecting increasingly delayed payments.

D&B Failure Score® predicts the likelihood that a company will seek legal relief from creditors or cease operations without paying its creditors in full over the next 12 months.

Source: CMIE, Dun & Bradstreet Research

The key result: Zombification is more common than it appears

Roughly 20% of assessable firms entered zombie status at least once during the ten-year analysis period. This is significant because persistent debt-servicing stress is not confined to businesses visibly nearing failure. It can also affect firms that continue operating, employing workers, transacting with other businesses, and contributing to the broader Indian economy. The concern is not merely that these firms remain active, but that prolonged financial weakness can gradually limit their capacity to absorb shocks, fund expansion, invest in productivity, and pursue new opportunities. While a single financially constrained firm may have limited economic impact, a large pool of such firms can collectively weigh on investment, resilience, and the overall quality of growth across India's corporate sector.

But there is a silver lining: Becoming a zombie does not mean remaining one

Among zombie firms whose position could be observed in 2025, around 55% showed some degree of recovery – both temporary and sustained[2]. This suggests that prolonged financial stress does not necessarily become permanent and that firms can rebuild their debt-servicing capacity over time. More importantly, recovery can unlock capital and productive capacity that had effectively been constrained by financial stress, restoring firms' ability to invest, expand, and contribute more productively to the Indian economy. Yet one-third continued to qualify as Zombies, while around 13% remained Stressed[3]. The persistence of this weakness matters because, when spread across a sufficiently large set of firms, it can slow the reallocation of capital and resources towards more productive businesses. Over time, this can reduce competitive dynamism, weaken productivity growth, and leave a larger share of the corporate sector operating with persistently weak underlying earnings.

[2] **Temporary** – previously Zombie firm with ICR ≥ 1 in 2025, but not Healthy for two consecutive years; **Sustained** – a previously Zombie firm that has maintained ICR ≥ 1 for at least two consecutive years.
[3] **Stressed** – a previously Zombie firm with ICR < 1 in 2025

The landscape is improving, but legacy stress remains

The broader corporate environment has improved. The share of observable firms classified as either Stressed or Zombie rose to roughly 23% in 2020, before declining steadily to around 14% by 2025. Zombie prevalence itself also fell from around 8% of firms in 2020 to roughly 5% in 2025. The landscape therefore appears considerably healthier, although this reflects stronger debt-servicing capacity rather than direct evidence of efficient capital allocation. At the same time, declining zombie prevalence does not immediately eliminate the existing stock of financial stress, as firms that enter prolonged distress can take considerably longer to recover.

The distinction is also visible in Dun & Bradstreet's Failure Raw Score®, which provides a forward-looking assessment of business failure risk. The median score stood at 1,419 for Healthy firms, compared with 1,388 for Recovered firms and 1,183 for Zombies; lower scores indicate higher failure risk[4]. This reinforces the broader finding: firms classified as Zombies do not merely exhibit weak interest coverage, but also carry a materially weaker risk profile. Recovered firms, meanwhile, move considerably closer to Healthy firms, suggesting that recovery is meaningful, even if some residual risk remains.

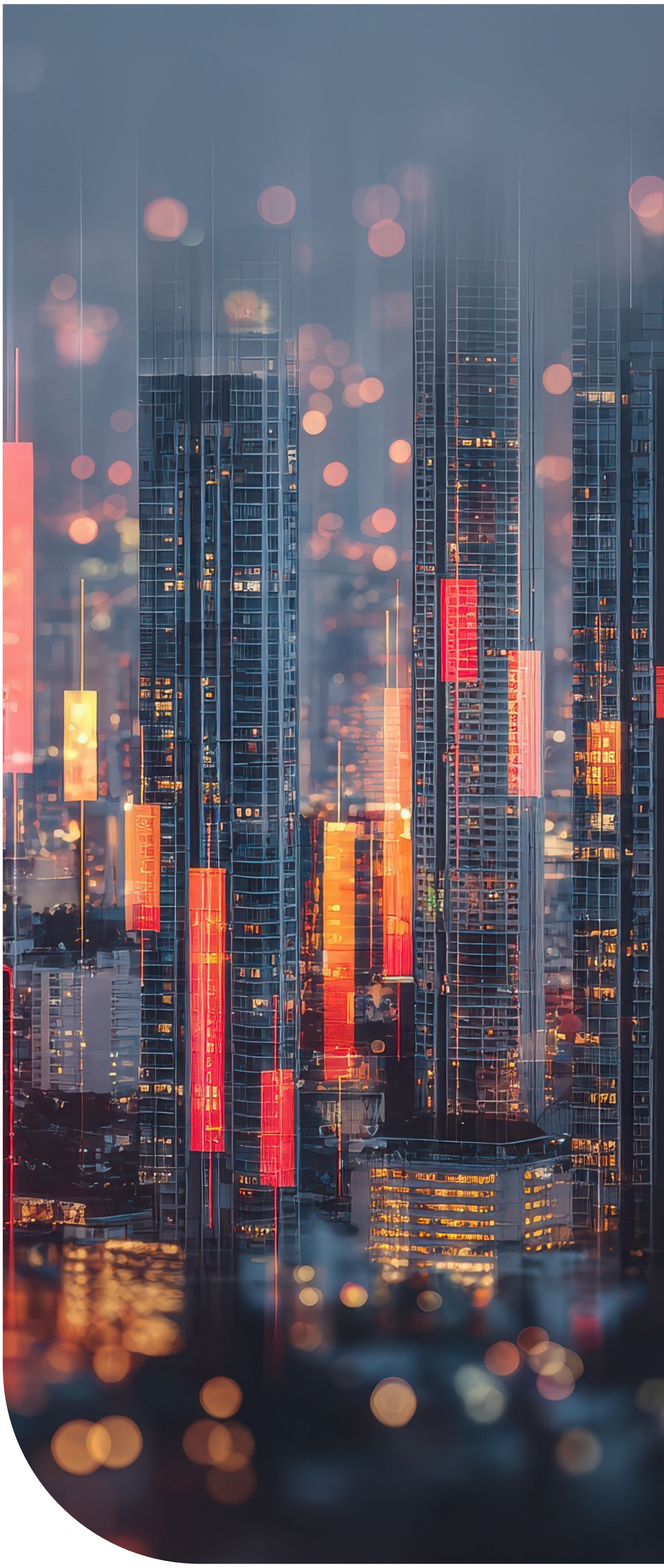
Ultimately, zombie firms are better understood as a financial trajectory rather than a permanent label. Understanding this trajectory is important because it tells us not only how many firms are under prolonged stress, but also how resilient the corporate landscape is, how effectively firms are able to recover, and how much financial weakness continues to remain embedded within the economy. In that sense, tracking zombification provides a useful lens into the underlying strength and adaptability of the broader business environment.

[4] Differences in Failure Score distributions across Healthy, Recovered, and Zombie firms were statistically significant, based on a Kruskal–Wallis test followed by pairwise Wilcoxon tests.

How can Dun & Bradstreet help?

- **Assess business failure risk**: D&B's Failure Score® helps identify firms with elevated failure risk beyond what financial ratios alone may reveal.
- **Track payment behaviour:** PAYDEX® provides insight into a firm's historical trade-payment performance and can indicate improvement or deterioration in payment behaviour.
- **Spot emerging deterioration**: D&B's Failure Score®, financial performance, and PAYDEX® together can provide a broader view of changes in a firm's risk profile.
- **Monitor recovery**: Risk indicators can help assess whether risk has moderated alongside an improvement in financial performance.

Note: *Missing financial observations are not assumed to indicate either health or distress and are excluded where the relevant condition cannot be established. The analysis takes 2015 as its analytical inception and does not infer firms' financial position before this period. Firm age is not imposed as an additional condition; the analysis focuses specifically on the persistence of debt-servicing stress through the three-consecutive-year ICR criterion. The analysis is based on financial years; however, for ease of representation, the years are presented in calendar-year format.*



For further insights, reach out to your Dun & Bradstreet account manager or connect with one of our experts through the contact details below.

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