

# Comments on: Unearthing Zombies Kulkarni, Ritadhi, Vij and Waldock

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# The paper

- ▶ Introduce a method for identifying zombies
- ▶ Changes in zombie reporting around:
  - ▶ The Insolvency and Bankruptcy code, 2016
  - ▶ The RBI-12 circular, 2018
- ▶ Small impact on reporting post IBC; much larger impacts after RBI-12
- ▶ This has spillover effects - banks reallocate credit to the healthy borrowers
- ▶ Conclude that: Increasing creditor rights may not be enough when banking system is entrenched

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- ▶ A borrower reported as standard by end of the quarter is classified as SMA2 if it was SMA2 sometime during the quarter?
- ▶ Is the definition of “zombie” the most appropriate?
  - ▶ Zombie firms: “are unable to cover debt servicing costs from current profits over an extended period”
  - ▶ Does becoming SMA2 even once imply inability to cover debt servicing costs?
  - ▶ How similar or different is it from measures in the literature?
  - ▶ Do the results hold for measures that are more similar to the one’s used in the literature?

## Firm size and IBC

- ▶ Expect “no differential impact of IBC for borrowers with exposures exceeding Rs.1 billion”
  - ▶ Not sure about this.
  - ▶ The cost-benefit of going to the IBC would vary by firm size, and would shape decisions.

## Comparing a law to a circular

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- ▶ Footnote 20 suggests that some banks are less likely to comply with the circular. How is this possible?
- ▶ The circular was immediately challenged.
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- ▶ The circular was immediately challenged.
- ▶ But if a circular was in the Supreme Court, what does that do to the incentives of the regulated entities?
- ▶ IBC: Law but incentive to use it uncertain.
- ▶ RBI: Incentive to use it but legal status uncertain.

## More details on the RBI-12 circular

- ▶ The RBI also discontinued programmes for banks to restructure their defaulted loans such as CDR, S4A, SDR.
- ▶ Is the rise in NPAs a mechanical result of this discontinuation? (The paper mentions this in passing in the results!)
- ▶ What happens to these schemes if the circular is being challenged?
- ▶ What happens when the circular is overturned?

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- ▶ What happens when the circular is overturned?
- ▶ The circular asked banks to refer accounts to the IBC.
- ▶ Did that happen?

## In conclusion

- ▶ Promising work.
- ▶ Need more careful elaboration on what “zombie” means.
- ▶ Need more details on how the uncertain legal status of the RBI-12 shapes incentives.

Thank you