

IMPACT OF PANDEMIC ON INDIAN FIRMS

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Abstract

Due to everchanging environment, firms have to face many difficulties. Survival is a big question before the firms during this pandemic. Since 2019 there are so many companies which are referred to NCLT for the insolvency proceedings. Covid -19 effects a lot on the Indian economy. Just because of this, day by day many companies are stepped towards bankruptcy. It is very difficult for the Indian Firms to avoid bankruptcy situation. Every firm, whether it is small, medium and large, needs finance for the fulfilment of its day to day activities. During this pandemic, firms are unable to fulfilled its working capital requirements. To fulfil working capital requirements is a measure problem for the Indian firms. So, number of cases which admitted to NCLT Benches for insolvency proceedings are increasing day by day. This study will be useful to check the impact of Covid 19 on Indian firms. This study is also very useful for various stakeholders like Government, companies, Income tax authorities.

Introduction

In India insolvency cases are solved according to Insolvency and bankruptcy code 2016. Before 2016, there was no single regime for bankruptcy cases and it took long time to declare a company as bankrupt. To solve this problem, Indian government decides to have single regime to solve insolvency cases. Bankruptcy code is a single solution to solve the problem of insolvency cases. Before this, it was a very lengthy procedure. It has 255 sections and 11 schedules.

There are 14 benches of NCLT to solve the insolvency cases

1. Ahmedabad bench
2. Allahabad bench
3. Amaravati bench
4. Bangalore bench
5. Chandigarh bench
6. Chennai bench

7. Cuttack bench
8. Guwahati bench
9. Hyderabad bench
10. Indore bench
11. Jaipur bench
12. Kochi bench
13. Kolkata bench
14. Mumbai bench

Literature Review

Bagntasarian (2019) reveals the underlying dynamics between the capital buffer and bank performance in EU-27 countries. Akaruzzaman (2019) studied the comparison of bank performance, bank profitability and possibility of bankruptcy in the banking sector of selected three countries (Finland, China, Bangladesh). Sharma (2019) studied the first ten companies which were referred by the Reserve bank of India for insolvency proceedings under Insolvency and bankruptcy code 2016. Soni (2019) analysed the financial distress in selected public sector undertakings by applying them Z score model of bankruptcy prediction.

Objective of study

1. To find out the impact of COVID 19 on the Indian Firms
2. To study the insolvency resolution process of Indian firms.

Research Methodology

Values of Z- score of financial distress firms are calculated. Z-score values are calculated by using five financial ratios of the companies for the last five years. The data collection in the present study is done by secondary sources. Data are collected through the balanced sheet of Indian firms and through the official site of NCLT.

Insolvency Resolution Process

First of all, application is submitted to the NCLT when default is committed. Application can be submitted by financial creditor, operational creditor and corporate debtor. It depends upon the NCLT whether to accept the application or to reject the application.

Date of admission of case – when application is accepted by the NCLT.

Appoint of Interim Resolution Professional - After accepting the application of insolvency, NCLT appoint the Interim Resolution Professional and then he announces in the public newspaper about the insolvency of the company.

Formation of Committee of creditors – Then committee of creditors are formed and in its first meeting it is decided by the committee to whom to appoint Resolution professional. Either to appoint new resolution professional or continue with same Interim Resolution Professional.

Preparation of Information Memorandum – After that Resolution professional prepares the information memorandum and resolution plan are proposed by the creditors. If it is approved by the 66% majority of creditors, it is forwarded to NCLT. It depends upon the NCLT whether to approve that resolution plan or not. If NCLT is satisfied with the resolution plan, NCLT approved the resolution plan and proceed with the plan. If NCLT dissatisfied with the plan NCLT reject the resolution plan.

During this pandemic period, there are more than 1000 companies which are referred to 14 NCLT benches for insolvency proceedings. Around 500 companies filed their cases in NCLT Delhi bench.

Companies which referred to NCLT benches for insolvency proceedings during this pandemic period

Name of the company	Industry	Date of Bankruptcy
MLP Developers and Promoters Private Limited	Real estate	10 Mar, 2021
Best Foods Limited	Hotels	01 Mar, 2021
Ram Hari Motors Pvt Ltd	motor vehicles	22 Dec, 2020
BBN Foods HiTech Processing Pvt Ltd.	food products	15 Dec, 2020
Saber Paper Ltd	paper product	15 Dec, 2020
Emsons Organic Ltd	Health Care	15 Dec, 2020
Karan Processors Pvt Ltd	Garments	26 Nov, 2020
Priknit Retails Ltd.	Garments	18 May, 2020
B. R. Knitwears Pvt. Ltd	Readymade Garment	13 Mar, 2020

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Name of the company	Industry	Date of Bankruptcy
Little Bee International Private Limited.	Farming of animals	26 Feb, 2020
Bhagwandas Ispat Pvt Ltd.	Metals & Chemicals	14 Feb, 2020
Tripurari Agro Pvt Ltd	Agricultural Product	07 Feb, 2020
Isolux Corsan India Engineering & Construction Pvt Ltd	construction and industrial services	06 Feb, 2020
Jai Bhole Nath Enterprises Pvt Ltd	constructions	27 Jan, 2020
Allwyn Furniture Pvt Ltd	Furniture	20 Jan, 2020
Inka Foods Pvt Ltd	Food	10 Jan, 2020
Rama Krishna Knitters Pvt Ltd	Apparel & Textile Products	24 Dec, 2019
Punjab Basmati Rice Ltd	Agriculture Product	18 Dec, 2019
Oswal Spinning & Weaving Mills Ltd	Textile	13 Dec, 2019
Anandtex International Pvt Ltd	Textile	06 Dec, 2019
Sahil International Pvt Ltd	wearing apparel,	18 Nov, 2019
Satnam Agri Products Ltd	Production, processing and preservation of fruits & veg.	01 Nov, 2019

Name of the company	Industry	Date of Bankruptcy
Edu Smart Services Pvt Ltd	Telecommunication	23 Mar, 2021
Pack Tech Systems Pvt Ltd	Printing equipment	01 Mar, 2021
Annies Apparel Pvt Ltd	Wholesale of household goods	23 Feb, 2021
Prominent Metal Pvt Ltd	Wholesale on a fee or contract basis	16 Feb, 2021
One World Solutions Pvt Ltd	Software publishing	16 Feb, 2021
Royal World Pvt Ltd	Transport activities	12 Feb, 2021
JMD Oils Pvt Ltd	Business Services	03 Feb, 2021
Jassum Propocon Pvt Ltd	BUSINESS Services	03 Feb, 2021
Incom wires & Cable Ltd	Cable Dealer	19 Jan, 2021

Name of the company	Industry	Date of Bankruptcy
Value Infratech India Pvt Ltd	Constructions	04 Jan, 2021
Emmegi India Private Ltd	special purpose machinery	23 Dec, 2020
Ajaz Nanda Design Pvt Ltd	Consultancy	22 Dec, 2020
Global Interactive Malla Pvt Ltd	Retail trade	22 Dec, 2020
AVJ Infrastructure Pvt Ltd	Building completion	06 Nov, 2020
Margra Industries Ltd	Manufacturing	15 Oct, 2020
ELHPL Private Ltd	Software publishing	15 Oct, 2020
Vallabh Steel West Pvt Ltd	Basic Iron & Stee	16 Sep, 2020
Shree Balaji Betel Nuts Pvt Ltd	Tobacco products	11 Sep, 2020

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Name of the company	Industry	Date of Bankruptcy
Shree Raj Mahal Jewellers Ltd	Jewellers	08 Sep, 2020
PD Advisory Services	Advisory Services	04 Sep, 2020
Noida Software Technology Park Ltd	Software Publishing	04 Sep, 2020
Affinity Beauty Salon Pvt Ltd	Service activitie	28 Aug, 2020
Global Infonet Distribution Pvt Ltd	Computer Dealers	21 Aug, 2020
Beta Infratech Pvt Ltd	Constructions	24 Jul, 2020
General Power Company Pvt Ltd	Power	22 Jul, 2020
R S Ajit Singh & Co.	Vehicle deale	26 Jun, 2020
Him Steel Pvt Ltd	Steel	25 Jun, 2020

Name of the company	Industry	Date of Bankruptcy
Rathi Super Steel Ltd	Steel	19 Jun, 2020
Lotus Auto Engineering Ltd	Business Activities	01 Jun, 2020
S R Foils & Tissue Ltd	Aluminum Foil	04 Mar, 2020
Kansal Building Solutions Pvt Ltd	Constructions	06 Feb, 2020
HBN Daries & Allied Ltd	Dairy Products	31 Jan, 2020
Shree Shyam Pulp & Board Mills Ltd	BUSINESS ACTIVITIES	21 Jan, 2020
Techpro Systems Ltd	Service activities	16 Jan, 2020
Advance Surfacants India Ltd	BUSINESS ACTIVITIES	14 Jan, 2020
Earth Iconoic Infrastructure Pvt Ltd	Real estate activities	10 Jan, 2020

Name of the company	Industry	Date of Bankruptcy
Apex Buildsys Ltd	Building completion	09 Jan, 2020
Satkar Aircargo Services Pvt Ltd	Airways	03 Jan, 2020
Runeecha Textiles Ltd	Garments	03 Jan, 2020
Yamuna Infradevelopers Pvt Ltd	Real Estate Activities	18 Dec, 2019
Kashyap Motors India Pvt Ltd	Motors Vehicles	04 Dec, 2019
Sumeru Processors Pvt Ltd	Wholesale in a variety of goods	03 Dec, 2019
Vipul Travels Pvt Ltd	Transportation	03 Dec, 2019
Era Housing & Developers Ltd	House Builders	03 Dec, 2019
Century Communication Ltd	Communication	03 Dec, 2019

Through Z- score, it can be predicted by the company that it will be going to bankrupt in near about future. Higher the value of Z-Score lesser the chances of bankruptcy of the company. But during this pandemic the companies whose value of Z- Score are high, still these companies admitted to the NCLT Benches for insolvency. This shows that COVID 19 effects a lot in industrial growth and many healthy firms are converting into bankrupt firms just due to this pandemic.

These are the values of Z-score of **Bhushan Energy Ltd (Industry: Power Generation & Supply)**

Year	Working Capital (crores)	Retained Earnings (crores)	EBIT crores	Book Value of Equity	Total Sales (crores)	Total Assets (crores)	Z- Score
Mar 17	-327.39	375.61	-15.63	136.23	621.72	2848.55	0.25
Mar16	-416.91	604.55	-18.74	136.23	361.16	2791.51	0.20
Mar15	-112.33	781.85	53.41	136.23	351.50	2864.97	0.403
Mar14	-268.4	627.74	278.49	101.23	623.08	2642.60	0.707
Mar13	107.25	518.52	359.15	101.23	629.14	2553.69	0.9016

These Z- Score values shows that the company has positive value of z-score but COVID 19 converts these values of Z-Score into negative values. These shows that Covid19 is a main factor for insolvencies of the Indian firms.

Unitech Machines Ltd (Industry:Electric Equipment)

Year	WC	RE	EBIT	Book value of Equity	Total Sales	Total Assets	Z-Score
Mar 19	372.04	190.51	79.38	38.47	676.12	706.35	1.93
Mar 18	189.88	155.93	70.66	36.93	623.48	529.24	2.12
Mar 17	223.77	92.07	57.53	30	643.12	440.38	2.43
Mar 16	168.03	81.03	70.94	30	566.38	341.74	2.88

These values of Unitech Machines show that in the year value of z-score is 2.88. The value of Z-score in the year 2018 is 2.12. But in 2019-year, initial year of COVID the value starts declining. This shows that just due to Covid 19 Unitech Machines Ltd is referred to the NCLT Delhi for insolvency proceedings.

These are values of Z-Score of some Indian firms which are admitted to NCLT for insolvency proceedings in the year 2019.

Name of Company	Industry	Z-Score (Bankrupt Firms)				
		Mar19	Mar18	Mar17	Mar16	Mar15
Uttam Steel Value Ltd	Steel	-1.06	-0.21	0.25	0.95	1.22
Global Houseware Ltd	Steel	1.33	1.57	3.46	6.01	5.94
Uttam Galva Metallics Ltd	Steel	0.50	0.60	0.78	1.22	1.33
Kut Energy Pvt Ltd	Electronics	3.57	3.27	3.90	5.02	4.65
Dawar International Electronic Pvt Ltd	Electric Equipment	2.18	3.46	-12.27	-0.93	0.10
Indo Solar Ltd	Electric Equipment	-2.10	-0.65	-0.54	0.008	0.006

Findings

- 1 Most of the companies which referred to NCLT for insolvency proceedings after 2018 were running well. Still they are admitted for insolvency proceedings just due to this pandemic.
2. Financial Ratios of Companies which referred to NCLT after 2018 are significantly good before the time period of this pandemic.
3. Value of Z- Score starts declining during this pandemic. Higher the value of Z-Score lesser the chances of Bankruptcy.

Conclusion

Since 2019 there are so many companies which are referred to NCLT for the insolvency proceedings. Covid -19 effects a lot on the Indian economy. Just because of this, day by

day many companies are stepped towards bankruptcy. It is very difficult for the Indian Firms to avoid bankruptcy situation.

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