

An Analysis of Characteristics of Wilful Defaulters in India



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In 2015, the Reserve Bank of India, brought out a master circular on wilful defaulters and with a purpose “to put in place a system to disseminate credit information pertaining to wilful defaulters for cautioning banks and financial institutions so as to ensure that further bank finance is not made available to them.” The number of wilful defaulters have been increasing in India since 2014-15 and became 7,535 in 2017-18. Over the years, the regulatory bodies in India have tried to resolve the suits filed in numerous ways and by empowering banks to recover the dues. But the questions remain – were their signs of default which were missed, were there any unique characteristics of these companies which could have helped the banks take preventive actions? This paper attempts to answer these questions by analysing the financial and governance characteristics of the companies declared as wilful defaulters over a period of 4 years before they were declared wilful defaulters. We try to assess their default risk using the Altman Z score and find the trajectory of the score for these companies over the years. We find that most of these wilful defaulters fall under textile and trading industry and show early signs of default through its consistent poor financial performance. We also find that on an average they have 35 % promoter holdings and 4 % independent directors on the board in the said period with board size varying from 1 to 10 members while substantial increase in the leverage of these firms. The paper concludes that financial institutions should look out for the signs not only pertaining to the potential growth of the company but the fundamental structure of the firm like its Governance structure and its Financial stability through Altman Z Score and other Bankruptcy Prediction Model to avoid wilful default in the system and create a safe environment for lenders in the economy.

Keywords: Wilful Defaulter, Altman Z score, Corporate Governance, Emerging Economy, Board of Directors

1. Introduction

Default is defined as failure to meet the legal obligation of the loan. The financial world is facing a gruesome issue of rising number of loan defaulters all over the world. The problem has not emerged suddenly but, has been faced by financial institutions at large for a very long duration of time. According to the Bankruptcy and Insolvency Report of World Bank, “resolving insolvency has been a priority of all the nations” and figure 1 depicts the global ranking of the nations with respect to resolving insolvency and recovery rate (Bankruptcy and Insolvency Code, 2016).

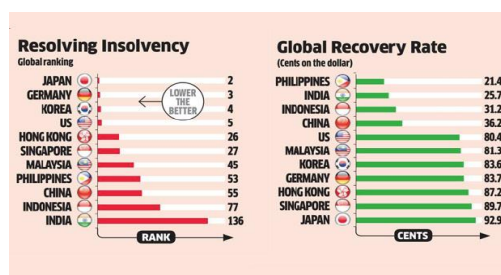


Figure 1 Insolvency Resolution and Global Recovery Rate in the World
Source: Bankruptcy and Insolvency Report of World Bank, 2016

With plunge in the interest rates, businesses all over the world is becoming more and more leveraged thereby increasing the risk in the economic system. Default can be categorized into four types Debt Services Default, Technical Default, Sovereign Default and Strategic Default (Financial Web). Debt service default occurs when the borrower has not made a scheduled payment of interest or principal. Technical default occurs when an affirmative or a negative covenant is violated. Sovereign Debt can be defined as a situation where countries can default on debt, however, since they are not subject to any bankruptcy court, usually no legal consequences can be taken. When a nation is on the brink of loan default, the creditor will work with the nation to restructure the loan. The loan term may be extended and the re-payments may be reduced. A strategic default or a wilful default is when a borrower purposely refuses to make a payment on a loan despite their ability to make the payments.

The banking industry as the main provider of financing in the emerging economy is especially interested in minimizing the level of non-performing loans in order to maximize profit on the credit activity. Asset management investors need to have reliable tools for the selection of companies into their portfolios. Emerging economies face volatile and highly countercyclical

interest rates usually attributing to countercyclical default. It has been evidently proven that default probabilities and interest rates depend on incentives for repayment. Default is more likely in recessions because this is when it is costlier for a risk averse borrower to repay non contingent debt (Arellano, 2008). Financial distress of the companies is on the one hand detrimental to investor returns, but on the other hand risk may give opportunities for high returns. Rating agencies assess the risk of the entities and securities issues, thus they need to have a tool to predict default. As the nations and the industry grew to become prominent in the market, the appetite of the prospective entrepreneurs for the risk also grew in order to participate in huge returns. And to boost the economies of the nation, the Central Banks cut the interest rates thereby inducing the entrepreneurs to take huge debts inspite of limited scope of growth in the market. This led to advent of defaults and Non Performing Assets in the system which in turn gave birth to varied default laws and regulations by the Central Banks of the world.

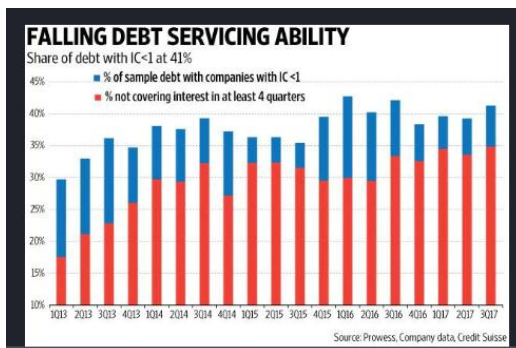


Figure 2 Falling Debt Servicing Ability of Indian Firms
Source: live mint 2017

Indian financial institutions, for example, have been facing the problem of increasing non-performing assets (NPAs). Biswas & Deb (2004) pointed out the incidence of NPAs was due to the malfunctioning of the banking institutions as due to the external institutional environment. Also, the incidents of wilful defaulters have been increasing (figure 2). According to RBI, A ‘wilful default’ would be deemed to have occurred if any of the following events is noted (Damodar, 2015):

1. The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.
2. The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
3. The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
4. The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank / lender.

A wilful defaulter is somebody who has essentially not used the fund for the purpose it has been borrowed or when he has not repaid when he can do so; when he has siphoned off the funds or when he disposed of the assets pledged for availing of loan without the bank’s knowledge. The rise in the number of these defaulters in the economy increases the credit risk leading to loss of trust in the financial system of the nation which widens the credit spread of the nation. In India, The Reserve Bank of India’s Insolvency and Bankruptcy Code, Wilful Defaulters laws etc. came into being to curb such counterparty and credit risk in the system.

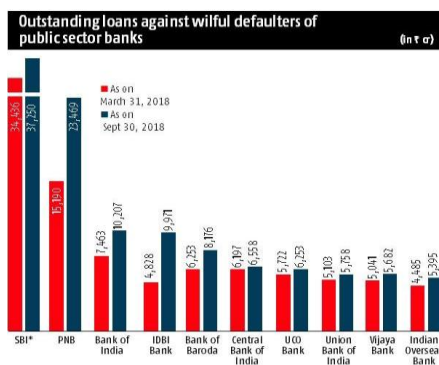


Figure 3 Loan Amount of Wilful Defaulters Outstanding with PSB’s
Source: Business Standard, 2018

The Reserve Bank of India has instructed the financial institutions to follow certain regulatory checks to curb the problem of wilful defaulters like:

1. Meaningful scrutiny of quarterly progress reports / operating statements / balance sheets of the borrowers;
2. Regular inspection of borrowers' assets charged to the lenders as security;
3. Periodical scrutiny of borrowers' books of accounts and the 'no-lien' accounts maintained with other banks;
4. Periodical visits to the assisted units;
5. System of periodical stock audit, in case of working capital finance;
6. Periodical comprehensive management audit of the 'credit' function of the lenders, so as to identify the systemic-weaknesses in their credit administration.

And in addition to that, certain penal measures have been incorporated by the Reserve Bank of India like (Damodar, 2015)

1. No additional facilities should be granted by any bank / FI to the listed wilful defaulters. In addition, such companies (including their entrepreneurs / promoters) where banks / FIs have identified siphoning / diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance from the scheduled commercial banks, Financial Institutions, NBFCs, for floating new ventures for a period of 5 years from the date of removal of their name from the list of wilful defaulters as published/disseminated by RBI/CICs.
2. The legal process, wherever warranted, against the borrowers / guarantors and foreclosure for recovery of dues should be initiated expeditiously. The lenders may initiate criminal proceedings against wilful defaulters, wherever necessary.
3. Wherever possible, the banks and FIs should adopt a proactive approach for a change of management of the wilfully defaulting borrower unit.
4. A covenant in the loan agreements, with the companies to which the banks / FIs have given funded / non-funded credit facility, should be incorporated by the banks / FIs to the effect that the borrowing company should not induct on its board a person whose name appears in the list of Wilful Defaulters and that in case, such a person is found to be on its board, it would take expeditious and effective steps for removal of the person from its board.

It has been made mandatory for all the banks and FIs to put up a transparent mechanism in place with reference to the entire process of wilful defaulters. These regulations have limited the scope of the banks to lend to high risk weighted loans and thus limiting the chance of default on loans. The default regulations have positively affected the operational efficiency of the bank, lowering the risk of the Loan Portfolios and maintaining high liquidity. The stricter default regulations have restricted unhealthy practices and unlawful practices thereby securing the interest of the public at large – stakeholders of the leveraged firm like shareholders, creditors, investors, employees and Government.

The purpose of this paper is to understand the characteristics of the firms which were declared wilful defaulters by Indian banks. We look at their financial and governance characteristics back in time before being declared defaulter. Also, we try to identify the period when the firms were showing signs of insolvency using Altman's Z-score.

The paper is organized as follows – section 2 provides the relevant literature for the paper and the research gaps, section 3 outlines the objectives, data and methodology, section 4 presents the findings and discussion and section 5 concludes.

2. Literature Review

Financial distress has been a widely researched area in finance. Various researchers' have compared the performance of different methods of financial distress prediction. Hubert Ooghe and Sofie De Prijcker (2008) depicted four major failure processes of a company that led to its bankruptcy and how they were vividly distinct from each other (Ooghe & Prijcker, 2008). Britain, Germany and France adopted new bankruptcy/ insolvency laws since 1985 (White, 1999). White (1999) identified and compared basic differences in bankruptcy procedures in different countries and the costs (losses in economic efficiency) attributable to bankruptcy in these nations. Morgan, Iverson, & Botsch (2005) argued that the 2005 bankruptcy abuse reform (BAR) contributed to the surge in subprime foreclosures that followed its passage. The research identified the effects of BAR using state home equity bankruptcy exemptions. It was found that the filers in low-exemption states were not very protected before BAR and their protection was further endangered with the advent of BAR reforms. Anjum (2012) summarised significant studies which highlight bankruptcy prediction and provides a comparison of the different models – Univariate Analysis Model, Multiple Discriminant Analysis Model, Logit/ Probit Analysis Model, Recursive Partitioning Algorithm Model and Neural Networks Model which were commonly used among which the primary focus was on multiple discriminant analysis Model for Bankruptcy Prediction.

Altman, Iwanicz-Drozdowska, Laitinen, & Suvas (2014) discussed the efficacy and importance of the Altman Z-Score bankruptcy prediction model globally and its applications in finance and related areas. They have used a large international sample of firms to assess the classification performance of the model in bankruptcy and distressed firm prediction. The analysis in this study showed that while a general international model works reasonably well, for most countries, with prediction accuracy levels of about 75%, and exceptionally well for some (above 90%), the classification accuracy may be considerably improved with country-specific estimation and country specific approach. Altman (2000) had studied the ZETA model for assessing bankruptcy risk of corporations and demonstrate the improved accuracy over pre-existing failure classification model (Z-Score) and to highlight that the ZETA model was based on data more relevant to current conditions and to a larger number of industrial firms. The paper also highlighted ZETA model's bankruptcy classification accuracy ranging from over 96 (93% holdout) percent one period prior to bankruptcy to 70% five annual reporting periods prior. The paper also focused on the potential applications of the ZETA bankruptcy identification model which include credit worthiness analysis of firms for financial and non-financial institutions, identification of undesirable investment risk for portfolio

managers and individual investors and in providing aid in more effective internal and external audits of firms with respect to going-concern considerations, among others. Several researchers have used the Altman Z-score in prediction of bankruptcy over the years for various developed and developing countries. Since the financial system in developing economies is still to mature, many researchers tested the model in these countries with the data available.

Sandin & Porporato (2007) aimed to test the usefulness of ratio analysis to predict bankruptcy in a period of stability of an emerging economy, such as the case of Argentina in the 1990s. The set of models tested in this paper showed that the financial data of Argentine companies in the 1990s do have information content, but the model to use was solely dependent on the preferences of the decision maker. Another study identified predictors of corporate financial distress, using the discriminant and logit models, in an emerging market over a period of economic turbulence and revealed the comparative predictive and classification accuracies of the models in different environmental setting (Ugurlu & Aksoy, 2006). The paper revealed the accuracy with which the discriminant and logit models worked in an emerging market over a period when firms face high uncertainty and turbulence. Therefore, emerging markets became good experiments for testing the model.

Emerging economies like India face several unique challenges in terms of financial regulation, stability and development. Mukherjee (2003) suggested that country like India should opt for the decentralised creditor-led strategy and adopt policies to create an environment more conducive to such a strategy so as to make it a success. However, due to lack of strong regulatory infrastructure, wilful defaults came into prominence. Satistha HK and Sowmya GS in 2016 (HK & GS, 2016), discussed about the growing rate of wilful defaulters in Indian Banking System and new rules and regulations being formed by the RBI to control this situation. The paper pointed out that weak monitoring and supervision of bank loans by the banking system was the core reason for the increase in the default. The paper also highlighted some of the recommendations to the RBI as to limit additional facilities to the defaulters, prompt and quick action by legal authorities against these defaulters, adopting a proactive approach in the bank management etc. Bardhan & Mukherjee (2013), dealt with the problem of wilful default and its implications for profitability and ultimate loan decision-making process of the banks. One of the most important results of the paper was that if limited liability condition holds and if the condition of willful default is satisfied, the bank will extend loans to its capacity which is exogenously fixed. Another important result of this paper was that as the loan capacity of the bank increases, the incidence of willful default also increases. Finally, it analysed how the regulator can use the 'loan capacity' as a policy instrument. Karthik, Shrivastava, & Subramanyam (2017) critically examined the exposure of wilful defaulters to credit institution, geographic area and industry at large. The paper demonstrated that there was strong positive correlation between gross advances, gross nonperforming assets of the credit institution and suit filed wilful defaulters. The paper also specified that industry sectors like Gems and Jewellery sector, real estate and infrastructure group have high probability of wilful defaulter.

Some researchers have raised a question about corporate governance and financial distress in different countries. However, very few researchers have looked at governance and financial distress in Asian countries. Johnson, Boone, Breach & Friedman (2000) have analysed the "Asian Crisis" of 1997–98 and stated that it had affected all the "emerging markets" open to capital flows. The paper studied the measures of corporate governance in emerging economies, particularly the effectiveness of protection for minority shareholders and its impact on the extent of exchange rate depreciation and stock market decline. The paper explained that in countries with weak corporate governance, worse economic prospects result in more expropriation by managers resulting in larger fall of asset prices. Another researcher Claessens (1999) suggested that family- and bank-relationships provide insurance against likelihood of bankruptcy during bad times, possibly at the expense of minority shareholders. In addition to firm-specific financial risk, the combination of better contractibility and judicial efficacy increase the likelihood of bankruptcy filing which suggested that creditors are more likely to force a firm to file for bankruptcy, with its related legal costs, if ex-ante loan features and ex-post judicial efficiency indicate a likely recovery of losses.

After reviewing the literature, we found that though various researchers have talked about the financial distress and its prediction for Asian countries like India. With the growing number and value of wilful default, it becomes imperative to understand the scope and characteristics of wilful defaulters. In this paper, we take the data from an emerging economy, India and try to identify the characteristics, financial and governance, of wilful defaulters. With more data becoming available, we are able to put up a unique dataset and describe the main variables for the companies identified as wilful defaulters. We also look at the Z-score of these companies to identify how long had they remained insolvent before being declared wilful defaulters. Our paper fills the gap in literature where we try to highlight the role of insolvency prediction leading to wilful defaults.

Research Gaps

1. In the above literature review, various researchers have talked about the financial distress and modelled a formula to predict the bankruptcy of a firm, but none of them have discussed in detail about the corporate governance structure of the firm and its effect in dealing with the bankruptcy.
2. This paper, aims to understand the financial as well as the board structure of the firms, in order to deduce the important role played by the Board and its members in dealing with crucial financial situations like – wilful default.

3. Data and Methodology

According to Reserve Bank of India (RBI), a 'wilful default' would be deemed to have occurred if any of the following events is noted:

1. The unit has defaulted in meeting its payment / repayment obligations to the lender even when it has the capacity to honour the said obligations.
2. The unit has defaulted in meeting its payment / repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.
3. The unit has defaulted in meeting its payment / repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.
4. The unit has defaulted in meeting its payment / repayment obligations to the lender and has also disposed off or removed the movable fixed assets or immovable property given for the purpose of securing a term loan without the knowledge of the bank / lender.
5. The identification of the wilful default should be made keeping in view the track record of the borrowers and should not be decided on the basis of isolated transactions / incidents. The default to be categorised as wilful must be intentional, deliberate and calculated.
6. We analysed the financial and governance variables mentioned in Table 1. The data related to these was collected from CMIE Prowess Dx database.

Table 1 Variable List and Definitions

	Name	Definition
Financial Variables	Sales	The revenues earned when a company sells its goods, products, merchandise, etc.
	PBIT	Profit Before Interest and Tax
	Equity Capital	Equity capital is funds paid into a business by investors in exchange for common or preferred stock.
	Retained Earnings	Retained earnings (RE) is the amount of net income left over for the business after it has paid out dividends to its shareholders.
	Current Liabilities	Current liabilities are a company's debts or obligations that are due within one year or within a normal operating cycle.
	Total Assets	Total Assets are items of economic value, which are expended over time to yield a benefit for the owner.
	Current Assets	Current assets represent all the assets of a company that are expected to be conveniently sold, consumed, utilized or exhausted through the standard business operations, which can lead to their conversion to a cash value over the next one year period.
	Working Capital	Working capital is a measure of a company's liquidity, operational efficiency and its short-term financial health.
	Governance Variables	Promoter holding (%)
Number of Independent Directors		An independent director is a director of the company with no material or pecuniary relationship with the company or its persons except of sitting fees.
Are CEO and Chairman of the Board same? (1 if yes, 0 otherwise)		Chief Executing Officer of a company is a person whose sole responsibility includes major corporate decision making, managing the overall operations of the business with optimum utilization of the available resources.
		Chairman is an executive elected by a company's Board of Directors who is responsible for presiding over Board and committee meetings and ensure smooth running of meetings while working to achieve a consensus in board decisions.

The Model that has been used here is, ALTMAN Z Score

$$Z = 0.012 \cdot X1 + 0.014 \cdot X2 + 0.033 \cdot X3 + 0.006 \cdot X4 + 0.999 \cdot X5$$

Where

X1 = Working capital/Total assets

X2 = Retained Earnings/Total assets

X3 = Earnings before interest and taxes/Total assets

X4 = Market value of equity/Book value of total liabilities

X5 = Sales/Total assets

Z = Overall Index

If, $Z < 1.1$ BANKRUPT ZONE

$1.1 < Z < 2.6$ GREY ZONE

$Z > 2.6$ SAFE ZONE

1. The Working capital/Total assets ratio (X1) is a measure of the net liquid assets of the firm relative to the total capitalization. Working capital is defined as the difference between current assets and current liabilities. When a firm is experiencing consistent operating losses, it will have shrinking current assets in relation to total assets. X1 proved to be

the more valuable in analyses than the current ratio and the quick ratio. This ratio explicitly considers liquidity and size dimensions.

2. The Retained Earnings/Total assets ratio (X2) refers to the earned surplus of a firm over its entire life. This measure of cumulative profitability over time is one of the two (the other is the use of the market value of equity, in X4, instead of the book value) “new” ratios evaluated by Altman. It considers implicitly the age of the firm due to its cumulative nature and the use of leverage in the firm’s financing of its asset growth.
3. The Earnings before interest and taxes/Total assets ratio (X3) is a measure of the true productivity or profitability of the assets of a firm. It is not affected by any tax or leverage factors. It reflects the earning power of the assets that determines the value of assets. In a bankrupt sense, insolvency occurs when the total liabilities exceed this fair value.
4. The Market value equity/Book value of total liabilities ratio (X4) shows how much the assets of a firm can decline in value (measured by market value of equity plus debt) before the liabilities exceed the assets and the firm becomes insolvent. This ratio adds a market value dimension to the model. The reciprocal of this ratio – the familiar Debt/Equity ratio – is used to measure financial leverage. Indeed, Altman’s use of the market value of equity was the first study utilizing market measures and was in some ways, a predecessor to the so-called structural approach, championed by Merton (1974) and commercialized by KMV.
5. The Sales/Total Assets ratio is the standard capital-turnover ratio illustrating the sales generating ability of the assets of a firm. It refers to the capability of management in dealing with competitive conditions. This ratio was dropped in the Z’-Score model.

The data on wilful defaulters was initially collected from CIBIL (Credit Information Bureau (India) Limited) – suit filed wilful defaulters. The data was then extracted from Prowess Database. We faced a lot of issues wrt matching this list with Prowess data. We initially had a list of 8426 companies under CIBIL – suit filed wilful defaulters which got narrowed down to 242 listed companies. We had to remove duplicates and individuals mentioned in the list. Due to data unavailability, the number of observations vary for different variables. We collect data for four years prior to the last trading day. All the analysis is provided for these years (year-1 representing year just before the last trading day year, year -2 representing two years prior to the last trading day year and so on).

4. Findings

We first performed the descriptive analysis of the companies. The industry wise distribution is presented in Table 2.

Table 2 Industry wise Classification

Sr. No.	Industry Name	No. of Wilful Defaulters
1	Textile and related products	31
2	Wholesale trading	31
3	Financial services	19
4	Steel	15
5	Drugs & pharmaceuticals	12
6	Computer software	10
7	Chemicals	9
8	Construction	9
9	Electronics	9
10	Machinery	8
11	Ferrous metal products	8
12	Gems & jewellery	5
13	Agricultural products	5
14	Miscellaneous services	5
15	Retail trading	5
16	Vegetable oils & products	5
17	Media	4
18	Business services & consultancy	3
19	Castings & forgings	3
20	Diversified	3
21	Miscellaneous manufactured articles	3

22	Plastic packaging goods	3
23	Transport	3
24	Aluminium & aluminium products	2
25	Ferro alloys	2
26	Hotels & restaurants	2
27	Plastic furniture, floorings & miscellaneous items	2
28	Tyres & tubes	2
29	Wires & cables	2
30	Others	22
	Total	242

In the above table, from a total of 242 sampled data of wilful defaulters, the wilful defaulters have been classified into 51 different industry group. Maximum no. of wilful defaulters fall under the category of textile industry and wholesale trading industry. Some of the textile companies under wilful defaulters are Shamken Multifab Ltd., Vatan Textiles, Viral Filaments Ltd etc. The reason for prominence of these defaulters in textile could be attributed to its high debt – equity ratio along with various other reasons like global credit crunch and bankruptcy of the overseas retail and textiles majors (economicstimes, 2008). The woes of the textile industry were compounded in 2012 by volatile cotton yarn prices, inconsistent government policies of restricting cotton and yarn exports sudden glut in the domestic and international markets, resulting in accumulation of inventories, and closure of dyeing units in textile regions (The Hindu, 2012).The wholesale trading industry as firms did not limit itself to just trading into one single domain like durable goods but they had large scope of diversification into non-durable goods and dealings in natural resources industry as well like Birla Power Solutions, Asian Natural Resources (India) Limited, etc. The next maximum number of wilful defaulters lie under Financial Services industry providing consultancy as well as fund based financial services like First Leasing Company of India, Vijaya Leasing, Jenson and Nicholson Financial Services Ltd, etc.

Corporate Governance Structure

Table 3 Promoter Shareholding

	Year -1	Year -2	Year -3	Year -4
Mean	34.7948	34.7948	34.8512	34.80157
Median	31.105	31.105	31.105	31.105
Standard Deviation	19.47445	19.50207	19.47384	19.39342
Minimum	1.08	1.08	1.08	1.08
Maximum	77.13	77.13	80.21	80.21
No. of observations	91	91	84	84

The Table describes the percentage of promoter shareholding in the wilfully defaulter companies and the change in the structure over the last 4 years from its last trading day. Due to unavailability of data of 151 companies from Prowess data source, we have analysed 91 companies' promoter shareholding and it can be concluded that most of the wilful defaulters had a weak corporate governance structure as the promoters shareholding in these firms on an average was just 35% which clearly depicts the unwillingness on the part of the promoters to innovate and perform better than the industrial standards. According to (Bokpin, 2013) results show that foreign banks are more cost- efficient than domestic banks, but not necessarily more profit- efficient. Nevertheless, foreign banks are more profitable than domestic banks and enjoy better quality loans. Managerial ownership leads to the cost inefficiency of banks. Banks with inside ownership are unprofitable overall but maintain a high loan quality. Governance (a larger board size) strongly improves profit efficiency but slightly worsens banks' cost efficiency. According to (Johnson, Boone, Breach, & Friedman , 2000) corporate governance of a firm plays a major role in determining the efficiency of the firm and pointed out that weak corporate governance results in more expropriation by managers resulting in larger fall of asset prices and thereby aggravating the chance of increase in wilful default.It can be observed from the data that the largest promoter shareholding was with UshaIspat – 77% from 81%, Parekh Platinum – 71% over a period of 4 years while the least went down to as low as 1% in Birla Power Solutions. It could be observed from the data that textile firms - which has the highest number of wilful defaulters like – Shamken Multifab Ltd has decreased its promoter shareholding percentage from 64% to 24% over a period of 4 years while Parasrampurua Synthetics Ltd has maintained it at 24%. The wholesale trading industry – with highest number of wilful defaulters is seen to have maintained its

promoter shareholding percentage over a period of last 4 years. The data suggests that firms like Surana Corporation Ltd has maintained 51% while Sawant Food Products has maintained only 31% over a period of last 4 years.

Table 4 *Independent Directors*

	Year -1	Year -2	Year -3	Year -4
Mean	3.07	3.36	3.60	3.79
No. of companies	111	101	94	87

The table describes the average number of independent directors on the Board of these wilful defaulters over a period of last 4 years from its last trading day. It can be observed that with the span of time, the participation of independent directors on the board has been stagnant and it shows that the firms refrained from using external expertise for the growth of the firm rather promoted and showed higher dependency on non – independent directors whose self-interest was to earn higher profits and not advocating growth of the firm. According to researcher (Blibech & Berraies, 2018), independent administrators were unable to decipher the complexity of the company's activities and were thus unsuccessful in controlling the managers and representing shareholders' interests properly. So to add value to the role of the independent directors - they should be made familiar with the companies', strategies, resources and activities to promote vigilant supervision and better the financial performance of the firm.

CEO/Chairman

From the sample of 242 wilful defaulters, there are only 2 companies – Usha (India) Ltd and Zylog Systems Ltd that share the same Chief Executing Officer and Chairman of the Board in the period of 4 years from its last trading day. Usha (India) Ltd is under the electronics sector while Zylod Systems Ltd falls under the Computer Software industry. According to various researchers like (Blibech & Berraies, 2018) the duality of CEO having power on Board as well as management committee does not impact the innovation of the firm but has a negative impact on the financial performance of the firm. The paper studied that the combination of functions favours a climate conducive to the development of opportunistic and inefficient behavior on the part of the manager, which will have adverse consequences for shareholders' wealth and make the firm inefficient in its earning and repayment of loans thereby increasing the number of wilful defaulters in the economy.

Financial Analysis through Altman Z score

Through Altman Z score it has been observed that most of the companies were in the Bankrupt Zone before they declared themselves as wilful defaulters. Through this paper, we try to bring to light the findings that the financial institutions and banks could utilize Altman Z score to predict the default rate on their loans

Table 5 *Altman Z Score*

	Year -1	Year -2	Year -3	Year -4
No. of companies	105	100	95	93
Z<1.1	98	93	79	79
1.1<Z<2.6	7	6	15	13
Z>2.6	0	1	1	1

The Table describes the companies under $Z < 1.1$ = BANKRUPT zone, $1.1 < Z < 2.6$ = GREY zone and $Z > 2.6$ = SAFE zone over a period of last 4 years from its last trading day. From the data, it was deduced that in its last year almost 93.33% of the companies were bankrupt before being declared wilful defaulter while the rest 6.77% were in Grey Zone i.e. on the verge of being Bankrupt. The percentage of Bankruptcy has been above 90% over the last 4 years and thus it can be deduced from the data that majority of the wilful defaulters were showing prominent signs of bankruptcy since last decade till the time they declared themselves as wilful defaulters. The company in the Safe Zone in last 2 to 3 years also turned to either Grey or Bankrupt till last year before the firm declared itself wilful defaulter.

5. Conclusion

In this paper we have analysed the characteristics of the wilful defaulters in India. The results show that majority of the wilful defaulters fall under specific industry like textile and wholesale trading bearing poor governance structure with poor promoter shareholding percentage and inclusion of very few number of independent directors on Board. The results of the paper suggest that majority of the firms before declaring itself as wilful defaulter have showed poor financial performance in the last 4 years before declaring itself as bankrupt. The analysis of the paper suggests that there are various factors that play a major role in the default of the firm and thus the financial institutions as well as bank should look out for the signs not only pertaining to the growth of the company but the fundamental structure of the firm like its Governance structure and its Financial stability through Altman Z Score to avoid the gruesome advent of wilful defaulters in the system. This paper widens

the scope of research in the field of Bankruptcy Prediction Models which takes into account not only financial variables but also incorporate corporate governance variable in its mathematical model which in turn would help all the money lenders like banks, financial institutions, corporations etc. an edge over the wilful defaulters in India.

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