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Evaluating Corporate Restructuring Outcomes: The Impact of Financial Ratios onOrganizational Performance

Prof. (Dr.) Devendra Kumar Dixit,

G L Bajaj Group of Institutions Greater Noida

Ms. Archana Kaushik

Assistant Professor, IIMT College of Management Greater Noida

Mr. Ruskin Sharma

Assistant Professor , G L Bajaj Institute of Management Greater Noida

ABSTRACT

This study examines the impact of corporate restructuring on the financial performance of 50 publicly listed Indian companies that underwent significant restructuring between 2013 and 2023. Key financial ratios such as Return on Assets (ROA), Return on Equity (ROE), and Operating Margin were analyzed over a ten-year period, comparing pre- and post-restructuring performance. The study also includes sector-specific insights, revealing how restructuring outcomes vary across industries like manufacturing, telecommunications, and financial services. The results indicate improved operational efficiency post-restructuring, although shareholder returns, as measured by ROE, remain a challenge. This study offers valuable insights for managers seeking to optimize restructuring strategies.

***KEYWORDS**: Corporate restructuring, financial performance, ROA, ROE, operating margin, industry-specific analysis*

INTRODUCTION

Corporate restructuring has emerged as a vital strategy for companies looking to optimize financial performance, enhance operational efficiency, or address financial challenges. Restructuring actions such as mergers, acquisitions, divestitures, and debt restructuring are often implemented to improve a firm's competitive position and market standing (Bowman et al., 1999). Numerous studies have shown that restructuring can lead to improved asset utilization and operational performance. Espahbodi et al. (2000) found that restructuring frequently results in higher Return on Assets (ROA) and operational margins, reflecting more efficient use of resources and better cost management. However, the effect on shareholder returns is less clear, with Alderson and Betker (1999) noting that restructuring may lead to a decline in Return on Equity (ROE) due to factors such as equity dilution or the high costs associated with the restructuring process.

Despite the body of research on corporate restructuring, significant gaps remain in understanding its long-term impact and how it varies across different industries. Prior studies, such as Rastogi and Mazumdar (2016), have emphasized that the outcomes of restructuring areoften industry-specific, with varying effects depending on factors like asset structure and market conditions. For instance, capital-intensive sectors may experience different restructuring results compared to service-oriented industries. Additionally, the role of a firm's financial health before restructuring in determining post-restructuring performance has been relatively underexplored, particularly in emerging markets like India. Understanding these dynamics is critical for firms seeking to navigate restructuring successfully and for academicslooking to contribute to the literature.

This study addresses these gaps by analysing the financial performance of 50 publicly listed Indian companies that underwent restructuring between 2013 and 2023. By focusing on key

financial metrics such as ROA, ROE, and Operating Margin, the study evaluates the impact of restructuring on firm performance over a ten-year period. Moreover, the analysis is sector- specific, providing insights into how restructuring affects different industries, from manufacturing to telecommunications and financial services. This research not only contributes to the academic understanding of restructuring outcomes but also offers practical recommendations for managers aiming to enhance operational efficiency and financial stabilityin post-restructuring periods.

LITERATURE REVIEW

CORPORATE RESTRUCTURING FRAMEWORK

Corporate restructuring, which involves reconfiguring a company's structure, finances, or operations, has been a subject of growing interest for both researchers and practitioners. Over the decades, numerous studies have explored how different types of restructuring—financial, operational, and strategic—impact the performance of firms, with particular emphasis on the role of financial ratios as performance indicators.

1. **Bowman et al. (1999):** One of the foundational studies, Bowman et al. (1999) examined how restructuring affects corporate performance in the short and long term. The authors found that restructuring often brings immediate improvements in cash flowand strategic focus. However, the sustainability of these improvements over time remains uncertain, with companies frequently needing to reevaluate and readjust their strategies.

2. **Alderson and Betker (1999):** This study investigated the relationship between financial restructuring and firm performance. Using financial ratios like the operating income-to-sales ratio, Alderson and Betker emphasized the importance of operational performance as a key metric for evaluating the success of restructuring efforts. They found that restructuring can lead to improved operating performance, but these improvements are not always sustained.

3. **Gilson et al. (1990):** One of the early works that explored financial restructuring in distressed companies, Gilson et al. (1990) showed that while debt restructuring can offer temporary relief, its long-term effectiveness is questionable. Firms that simply reschedule debt without addressing operational inefficiencies often fail to achieve sustainable financial health.

4. **Jacobs (1991):** This study highlighted the risks associated with high debt loads duringrestructuring. Jacobs argued that while firms might experience short-term financial improvements from restructuring, long-term efficiency and profitability are frequentlycompromised if the company becomes overly reliant on debt. This work introduced a cautionary perspective on aggressive financial restructuring strategies.

5. **Gilson (1997):** A later study by Gilson (1997) expanded on earlier findings, analyzing corporate restructuring mechanisms in greater detail. The study highlighted that companies engaging in restructuring often show temporary improvements in financial ratios like ROA and ROE but face challenges in sustaining these improvements over time. The author recommended a more holistic approach, considering operational and strategic restructuring alongside financial maneuvers.

6. **Espahbodi et al. (2000):** Focusing on companies that engaged in downsizing during restructuring, this study examined changes in financial ratios such as ROA, ROE, and the interest coverage ratio. Espahbodi et al. found that firms able to improve their debtservicing capacity were more likely to achieve better post-restructuring financial performance. However, the success of restructuring efforts was not uniform across all firms, suggesting the need for tailored approaches based on individual companycircumstances.

7. **Azman and Muthalib (2004):** Azman and Muthalib analyzed the impact of CorporateDebt Restructuring (CDR) in Malaysia. Their study highlighted how restructuring mechanisms such as debt rescheduling and equity swaps provided temporary relief but failed to guarantee long-term sustainability. The authors argued for a more comprehensive approach that goes beyond short-term financial fixes.

8. **Goto and Uchida (2006):** Goto and Uchida explored the long-term impact of corporate restructuring on firm performance in Japan. They found that although restructuring canimprove short-term financial ratios, such as ROE and debt-to-equity ratio, the long- term benefits are far less predictable, largely due to market conditions and underlying structural weaknesses within firms.

9. **Reddy et al. (2015):** In their study of Indian companies, Reddy et al. focused on the role of financial ratios such as ROE and debt-to-equity ratio in evaluating the success of corporate restructuring. They found that while these ratios are useful for measuring short-term improvements, they fail to provide reliable insights into long-term financial stability. Reddy et al. called for a more nuanced understanding of the factors that influence restructuring outcomes, such as external market conditions and managementcapabilities.

10. **Rastogi and Mazumdar (2016):** This study offered a more contemporary perspective, arguing for a deeper understanding of how different types of restructuring—financial, operational, and strategic—interact with financial performance indicators. Rastogi andMazumdar emphasized the need for industry-specific research, as the impact of restructuring varies significantly across different sectors, such as manufacturing versusservices.

11. **Singh et al. (2020):** Singh et al. explored how firms in emerging markets, particularlyin India and Southeast Asia, have leveraged financial restructuring mechanisms to navigate financial crises. They found that while restructuring can improve short-term financial health, many firms struggle with maintaining long-term profitability. Their findings underscore the need for ongoing operational improvements alongside financialrestructuring to ensure sustainable growth.

12. **Ahmad and Ali (2023):** One of the most recent studies on the topic, Ahmad and Ali (2023) reviewed the impact of restructuring on corporate performance across several industries. Their research found that while financial ratios like ROA and ROE are helpful in tracking post-restructuring performance, the most successful restructuring efforts also involve significant operational and strategic changes. They emphasized thatrestructuring should not be seen as a one-

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time fix but as part of a continuous process ofcorporate renewal.

GAPS IN LITERATURE

Despite extensive research on corporate restructuring, several gaps persist. One critical gap is the **long-term effectiveness** of restructuring efforts. Studies by Gilson (1997) and Goto and Uchida (2006) suggest that while financial ratios are useful for evaluating short-term improvements, their ability to predict long-term success remains limited. Many companies undergo multiple rounds of restructuring, indicating that initial gains may not translate into sustained performance. Additionally, there is a lack of industry-specific insights, as highlighted by Rastogi and Mazumdar (2016). Research often focuses on broad corporate categories, overlooking the significant variations in restructuring outcomes across industries. For example, capital-intensive industries may face different challenges than service-oriented sectors due to their distinct asset structures and market dynamics. Furthermore, external factors such as macroeconomic conditions and regulatory changes also play a crucial role in restructuring outcomes, but they remain underexplored in many studies, as noted by Singh et al. (2020). These gaps highlight the need for further research.

The literature shows that while financial ratios like ROA, ROE, and debt-to-equity offer insights into post-restructuring performance, they have limitations in predicting long-term success. Early studies by Bowman et al. (1999) and Alderson and Betker (1999) laid the groundwork, but more recent work emphasizes the need for industry-specific analysis and the influence of external factors (Rastogi & Mazumdar, 2016; Ahmad & Ali, 2023).

DATA COLLECTION AND SAMPLE

This study analyzes the corporate restructuring outcomes of 50 publicly listed companies in India that underwent significant restructuring between 2013 and 2023. The selected firms span key sectors such as manufacturing, telecommunications, financial services, and IT, all of which commonly experience mergers, acquisitions, and debt restructuring. Companies were selected based on their listing on the Bombay Stock Exchange (BSE) or National Stock Exchange (NSE) to ensure access to reliable data. To be included, firms were required to have undergone substantial restructuring, publicly disclosed in compliance with Securities and Exchange Boardof India (SEBI) regulations, and have a minimum market capitalization of INR 100 crores at the time of restructuring. Furthermore, only companies with complete financial data availablefor at least 5 years pre- and post-restructuring were included.

The data for this study was sourced from publicly available databases such as CMIE Prowess, Bloomberg, Reuters, and stock exchange filings. This included financial statements, historical stock prices, profitability ratios, and corporate restructuring announcements, with industry- specific data providing context for comparative performance analysis.

Table 3.1: Data Sources and Verification

Data Source	Description	URL/Access
Financial Statements	Balance sheets, income statements, and cash flow statements of firms.	CMIE Prowess, Company Websites
Stock Price Data	Historical stock prices for 5 years before and5 years after restructuring.	Bloomberg, NSE
Corporate Restructuring Announcements	SEBI-mandated disclosures on restructuring events such as mergers, acquisitions, and debt restructuring.	SEBI Filings, NSE
Profitability Ratios	ROA, ROE, debt-to-equity ratio, operating margin, and other financial metrics for pre- and post-restructuring.	Bloomberg, Reuters,CMIE Prowess
Industry Performance Data	Industry-specific benchmarks	CMIE Prowess, Reuters

Source: Data compiled from CMIE Prowess, Bloomberg, Reuters, and SEBI filings.

Table3.2: Representative Sample of Companies

Company Name	Industry	Market Capitalization (INR)	Type of Restructuring
Tata Motors Ltd.	Automotive	40,000 crores	Debt Restructuring
Vodafone Idea Ltd.	Telecommunications	35,000 crores	Merger
Suzlon Energy Ltd.	Renewable Energy	7,000 crores	Debt Restructuring
Bank of Baroda	Financial Services	60,000 crores	Merger

Jet Airways	Aviation	1,200 crores	Debt Restructuring
Infosys Ltd.	Information Technology	50,000 crores	Divestiture
Reliance Industries	Conglomerate	150,000 crores	Acquisition
HDFC Bank	Financial Services	75,000 crores	Acquisition
Bharat PetroleumCorp.	Oil & Gas	45,000 crores	Divestiture
Hindustan Unilever	FMCG	90,000 crores	Merger

Source: Compiled from annual reports, CMIE Prowess, and SEBI filings.

METHODOLOGY

This study employs a financial ratio analysis framework to evaluate the impact of corporate restructuring on firm performance. Data was collected for two periods: five years pre- restructuring (Year -5 to Year -1) and five years post-restructuring (Year +1 to Year +5). Key financial ratios such as Return on Assets (ROA), Return on Equity (ROE), Operating Margin,Debt-to-Equity Ratio, and Interest Coverage Ratio were analysed to assess profitability,leverage, and operational efficiency.

The Wilcoxon signed-rank test, a non-parametric statistical method, was applied to assess the significance of performance changes between the two periods, consistent with studies by Asimakopoulos and Athanasoglou (2012) and Ghosh (2018). Additionally, percentage change analysis was conducted to quantify improvements or declines in firm performance. Industry benchmarking was used to compare firm performance against sector-specific medians, ensuring the contextualization of restructuring outcomes relative to peers.

Table 4.1 : Financial Ratios Used for Measuring Performance

Financial Ratio	Definition/Formula	Purpose	Pre-Restructuring Period (Year -5 to Year -1)	Post-Restructuring Period (Year +1 toYear +5)
Return on Assets (ROA)	Net Income / Total Assets	Measures the efficiency of asset utilization.	Collected and averaged over the five-year period.	Collected and averaged over the five-year period.
Return on Equity (ROE)	Net Income / Shareholder's Equity	Assesses profitability relative to shareholders' equity.	Collected for each firm across the pre-period.	Collected for each firm across the post-period.
Operating Margin	Operating Income /Net Sales	Measures operational efficiency.	Tracked annually and compared to industry benchmarks.	Tracked and analyzedfor post-restructuring.
Debt-to-Equity Ratio	Total Debt / Total Equity	Measures the leverage and financial risk.	Calculated pre-restructuring to assess risk levels.	Compared to pre-period to identify changes.
Interest Coverage Ratio	EBIT / Interest Expenses	Assesses the ability to cover interest obligations.	Calculated for each firm pre-restructuring.	Tracked annuallypost-restructuring.

RESULTS AND ANALYSIS

Table 5.1Operating Performance Measures of Firms Pre- and Post-Restructuring

Year	-5	-4	-3	-2	-1	R	+1	+2	+3	+4	+5
No. of Firms	50	50	50	50	50	50	45	40	35	30	25

Mean ROA (%)	6.5	6.4	6.3	6.1	6.2	8.2	8.1	7.9	7.6	7.5	7.2
Median OperatingMargin (%)	15.6	15.4	15.2	15.0	14.9	17.4	17.2	17.1	16.8	16.6	16.3

The analysis of financial performance reveals that Return on Assets (ROA) experienced a significant increase, rising from 6.2% prior to restructuring to 8.2% afterward. This improvement suggests that firms were able to utilize their assets more efficiently post- restructuring, reflecting enhanced profitability and better resource allocation. Additionally, the Operating Margin demonstrated similar positive changes, increasing from a median of 15.6% before restructuring to 17.4% after. This increase in operating margin indicates that firms achieved greater operational efficiency, likely due to cost management improvements or revenue growth following the restructuring. These findings are consistent with previous research by Bowman et al. (1999) and Espahbodi et al. (2000), which similarly identified restructuring as a catalyst for enhanced financial performance across firms.

Table 5.2. Wilcoxon Signed-Rank Test Results for Financial Ratios

Ranks	N	Mean Rank	Sum of Ranks
Negative Ranks	20	11.35	227
Positive Ranks	2	13.00	26
Total	22		
Ranks	**N**	**Mean Rank**	**Sum of Ranks**
Negative Ranks	15	10.6	159
Positive Ranks	**4**	7.75	31
Total	19		

Test Statistics

Test Statistics	post_rest4 - pre_rest	post_rest5 - pre_rest
Z	-3.263	-2.575
Asymp. Sig. (2-tailed)	0.001	0.01

The Wilcoxon Signed-Rank Test results show a significant improvement in financial performance post-restructuring. For the comparison between post_rest4 and pre_rest, 20 firmsexperienced a decline in performance, while only 2 firms saw an increase. Despite the small number of firms with positive changes, the test returned a Z value of -3.263 and a p-value of 0.001, indicating that the changes in financial performance by the fourth year after restructuring were statistically significant. This suggests that restructuring had a clear and meaningful impacton firm performance.

Similarly, the comparison between post_rest5 and pre_rest revealed that 15 firms had decreasedperformance by the fifth-year post-restructuring, while 4 firms showed improvement. The testyielded a Z value of -2.575 and a p-value of 0.01, once again confirming a statistically significant difference. This indicates that the positive effects of restructuring persisted into thefifth year, with substantial changes in financial outcomes still evident.In both cases, the resultsaffirm that restructuring efforts contributed to significant shifts in financial performance, consistent with prior research on restructuring's effectiveness**.**

Table 5.3. Industry-Adjusted Performance Comparison (Median)

Financial Ratio	Industry Median	Pre-Restructuring Median	Post-Restructuring Median	Deviation from Industry Median (Post)
Return on Assets(ROA)	7.1%	6.5%	8.2%	+1.1%
Return on Equity(ROE)	14.0%	12.4%	10.8%	-3.2%
Operating Margin	16.0%	15.6%	17.4%	+1.4%

Debt-to-Equity Ratio	1.9	2.3	1.8	-0.1

Post-restructuring, firms exceeded industry medians for both ROA and Operating Margin. The ROA increased by 1.1 percentage points and the Operating Margin improved by 1.4 percentagepoints, indicating stronger performance relative to peers. However, ROE (Return on Equity) fell short of the industry median by 3.2%, likely due to changes in equity structure or profitability factors. These results are consistent with previous findings by Smart and Waldfogel (1994).

Table 5.4 Sector-Wise Performance Post-Restructuring

Sector	Mean ROA (Post)	Mean ROE (Post)	Operating Margin (Post)	Debt-to-Equity (Post)	Interest CoverageRatio (Post)
Automotive	7.5%	11.0%	16.5%	1.9	3.9
Telecommunications	6.8%	9.5%	18.2%	1.7	4.5
Financial Services	9.0%	12.5%	15.0%	2.0	4.0
Renewable Energy	8.5%	10.0%	17.0%	1.8	4.2

Sector-wise, **Financial Services** exhibited the highest **ROA** at 9.0%, while **Telecommunications** achieved the best operational efficiency with an Operating Margin of 18.2%. The **Debt-to-Equity** ratio was lowest in Telecommunications (1.7), suggesting better leverage management. These differences reflect the varying impact of restructuring across industries, supporting previous findings by Phan & Hill (1995).

Table 5.5. Multiple Linear Regression Results – Post-Restructuring Performance

Dependent Variable	IndependentVariable	Coefficient(β)	Standard Error	t- Statistic	p- Value	Significance
ROA (Post)	ROA (Pre)	0.312	0.097	3.21	0.002	Significant
	Debt-to-Equity Ratio **(Pre)**	-0.245	0.074	-3.31	0.001	Significant
	Operating Margin **(Pre)**	0.154	0.055	2.80	0.008	Significant
ROE (Post)	ROE **(Pre)**	0.182	0.089	2.04	0.043	Significant
	Debt-to-Equity Ratio **(Pre)**	-0.312	0.078	-4.00	0.000	Significant
Interest Coverage (Post)	Interest Coverage **(Pre)**	0.422	0.091	4.64	0.000	Significant

The multiple linear regression analysis shows that pre-restructuring financial health plays a crucial role in post-restructuring performance. Firms with higher **ROA** and **Operating Margin** before restructuring tend to maintain strong **ROA** afterward, indicating sustained profitability (β = 0.312, p = 0.002 and β =0.154, p = 0.008, respectively). However, firms with higher pre-restructuring **Debt-to-Equity Ratios** face negative impacts on both **ROA** and **ROE** post-restructuring (β = -0.245, p = 0.001 and β = -0.312,

p = 0.000), highlighting the risks of high leverage. Additionally, **Interest Coverage (Pre)** strongly predicts **Interest Coverage (Post)** (β = 0.422, p = 0.000), underscoring the importance of strong debt servicing capabilities for post-restructuring success.

DISCUSSION

The analysis of **Table 4.1** shows that restructuring led to significant improvements in performance, particularly in terms of Return on Assets (ROA), which increased from 6.2% pre-restructuring to 8.2% post-restructuring. This suggests that firms were able to utilize their assets more efficiently, leading to enhanced profitability. The Operating Margin also increased from 15.6% to 17.4%, reflecting greater operational efficiency, likely due to cost-cutting measures or revenue growth post-restructuring. Thesefindings are consistent with previous studies, such as Bowman et al. (1999) and Espahbodi et al. (2000),which identified restructuring as a driver of improved financial performance. For managers, this underscores the importance of focusing on operational efficiency and asset utilization to achieve long-term success post-restructuring, ensuring these aspects are prioritized during the restructuring process.The **Wilcoxon Signed-Rank Test** results in **Table 4.2** confirm that the improvements in financial performance were statistically significant. By the fourth year after restructuring, 20 firms experienced performance declines, but the significant Z value of -3.263 and p-value of 0.001 indicate a meaningfuloverall improvement in ROA. Similarly, by the fifth year, the trend continued with a Z value of -2.575 and p-value of 0.01, confirming lasting positive effects. These results align with Denis and Denis (1995), who found sustained performance improvements post-restructuring. For managers, thesefindings highlight the importance of long-term performance monitoring and ensuring that restructuringstrategies are designed for sustained impact, rather than just short-term gains.

Table 4.3 reveals that firms outperformed industry medians for ROA and Operating Margin post- restructuring, exceeding peers by 1.1 and 1.4 percentage points, respectively. However, Return on Equity (ROE) remained below the industry median by 3.2%, indicating that while operational improvements were achieved, shareholder returns lagged. This is consistent with the findings of Smart and Waldfogel (1994), who noted that operational gains do not always translate into enhanced shareholder value. The managerial implication here is that firms must not only focus on operational improvements but also consider strategies to enhance shareholder value. Managers should work on optimizing capital structures and profitability strategies to ensure that restructuring benefits extend to all stakeholders, particularly shareholders.

The sector-wise analysis in **Table 4.4** demonstrates that restructuring impacts varied significantly across industries. The Financial Services sector achieved the highest ROA (9.0%), reflecting robust profitability, while Telecommunications showed the best operational efficiency with an Operating Margin of 18.2%. This suggests that industries with strong operational synergies, like Telecommunications, are more likely to benefit from restructuring efforts aimed at improving efficiency. These results are consistent with Phan and Hill (1995), who noted that the impact of restructuring is often contingent on industry characteristics. For managers, these findings imply that restructuring strategies should be tailored to specific industry dynamics. In capital-intensive sectors, for example, managers may need to prioritize operational efficiency and debt reduction to achieve post- restructuring success.

The **Multiple Linear Regression (MLR)** results in **Table 4.5** show that pre-restructuring financial health strongly predicts post-restructuring performance. Firms with higher pre-restructuring ROA and Operating Margins were more likely to maintain strong ROA afterward, highlighting the importance of solid financial fundamentals before initiating restructuring. This is consistent with the findings of Rastogi and Mazumdar (2016), who emphasized the role of pre-restructuring financial conditions in determining post-restructuring outcomes. However, firms with high pre-restructuring Debt-to-Equity Ratios experienced negative impacts on both ROA and ROE post-restructuring. The managerial implication is clear: firms with high leverage before restructuring should focus on reducing debt levels

to avoid financial strain post-restructuring. Additionally, strong pre-restructuring debt management, as indicated by the significant relationship between pre-restructuring Interest Coverage and post- restructuring Interest Coverage, underscores the importance of maintaining healthy debt-servicing capacities throughout the restructuring process.

CONCLUSION

In conclusion, this study demonstrates that corporate restructuring generally leads to improved operational efficiency, as evidenced by significant increases in Return on Assets (ROA) and OperatingMargin. However, the decline in Return on Equity (ROE) highlights challenges in translating operational gains into shareholder returns. The analysis also shows that sector-specific dynamics and pre-restructuring financial health significantly influence post-restructuring outcomes. For managers, thekey takeaway is to prioritize operational improvements and debt management during restructuring, while also ensuring strategies are in place to enhance long-term shareholder value. These findings align with prior research, confirming the multifaceted impact of restructuring.

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