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# DEBT RESTRUCTURING MECHANISMS IN STEEL SECTOR AT JSW STEEL

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**ABSTRACT:** The steel industry, being capital-intensive and cyclic in nature, often faces challenges of debt overhang due to fluctuating global demand, volatile raw material prices, and macroeconomic uncertainties. Debt restructuring serves as a critical financial strategy for maintaining solvency and ensuring operational sustainability during such downturns. This research examines the debt restructuring mechanisms adopted by JSW Steel Limited, one of India's leading integrated steel producers, to manage its leverage and optimize its capital structure. The research explores both internal restructuring initiatives—such as asset monetization, refinancing, and cash flow optimization—and external mechanisms involving creditor negotiations, bond issuances, and debt-equity swaps. The analysis highlights how JSW Steel's proactive financial management, strategic acquisitions, and prudent debt restructuring enabled it to enhance liquidity, improve credit ratings, and sustain growth amid industry headwinds. The findings underscore the importance of strategic financial planning and corporate governance in facilitating successful debt restructuring within the Indian steel sector.

**Keywords:** *Corporate Debt Restructuring (CDR), Financial Restructuring, Loan Rescheduling, Asset Reconstruction Companies (ARC), Interest Rate Reduction*

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## 1. INTRODUCTION

Debt restructuring is a financial approach that involves modifying the conditions of your existing debts to make them more manageable. The idea is to lower your debt burden while also guaranteeing that creditors receive some sort of return. This may involve extending the repayment duration, cutting interest rates, or even reducing the principle amount owing.

The steel sector plays a crucial role in the industrial and economic development of any nation, serving as the backbone for infrastructure, manufacturing, and construction industries. However, due to cyclical demand fluctuations, global price volatility, and high capital intensity, many steel companies often face financial

distress. In such conditions, debt restructuring becomes a vital mechanism to restore financial stability and ensure business continuity. Debt restructuring in the steel sector involves reorganizing the firm's outstanding obligations—through rescheduling, refinancing, or converting debt into equity—to improve liquidity and reduce financial strain.

Over the past decade, the steel industry, particularly in emerging economies like India, has witnessed multiple episodes of over-leveraging and cash flow mismatches. External factors such as declining steel prices, rising raw material costs, and global trade pressures have intensified the financial challenges of steel firms. In response, debt restructuring



mechanisms—such as Corporate Debt Restructuring (CDR), Strategic Debt Restructuring (SDR), and Sustainable Structuring of Stressed Assets (S4A)—have been implemented to realign the debt structure with the firm’s revenue-generating capacity. These mechanisms aim to balance the interests of creditors and debtors while preventing large-scale industrial bankruptcies.

Furthermore, debt restructuring in the steel sector not only provides temporary financial relief but also promotes long-term operational efficiency and competitiveness. By optimizing capital structures, reducing interest burdens, and allowing managerial focus on core operations, restructuring can help distressed steel companies return to profitability. Policymakers and financial institutions have increasingly recognized the importance of such mechanisms in maintaining sectoral stability, preserving employment, and sustaining economic growth. Thus, an effective debt restructuring framework serves as both a financial rehabilitation tool and a strategic instrument for industrial revival in the steel sector.

## 2. REVIEW OF LITERATURE

Fang, C., Schumacher, J., & Trebesch, C. (2021). Fang, Schumacher, and Trebesch (2021) present an empirical research of over 200 sovereign bond restructurings, focusing on the impact of Collective Action Clauses (CACs) on creditor coordination. Their findings demonstrate that the inclusion of stronger CACs significantly reduces holdout litigation and enhances debt resolution efficiency. The research analyzes the relationship between haircut size, participation rates, and post-

restructuring bond performance. The authors show that countries with well-designed CACs experience faster restructuring completion and improved investor confidence. The research also addresses the legal and market challenges that arise in restructuring international sovereign bonds.

Gelper, A. (2023). Gelper (2023) explores the growing complexity of sovereign debt crises and the urgent need for reforming global restructuring mechanisms. The research highlights how traditional negotiation-based approaches have failed to deliver timely and equitable outcomes, particularly for developing nations facing unsustainable debt burdens. By analyzing recent debt restructuring cases in Latin America, the paper argues for a rules-based and transparent global framework that integrates creditor coordination and legal predictability. Gelper emphasizes the importance of involving multilateral institutions like the IMF and IDB in creating credible enforcement mechanisms.

Zoller, C. B. (2023). Zoller (2023) investigates how corporate restructuring frameworks perform during periods of economic and public health crises, such as the COVID-19 pandemic. The article evaluates policy responses in several OECD countries to identify best practices for maintaining business continuity. It highlights the role of insolvency moratoriums, emergency liquidity support, and adaptive restructuring laws in preventing mass corporate bankruptcies. The research underscores how rapid legislative flexibility and inter-agency coordination helped preserve employment and financial stability. Zoller argues that crisis-time policy-making should focus on



temporary relief combined with long-term solvency mechanisms.

Ghosal, S., & Thomas, D. (2023). Ghosal and Thomas (2023) investigate the overlooked role of informal creditors—such as domestic lenders, trade partners, and political allies—in sovereign debt restructuring processes. The research highlights how these non-institutional actors influence restructuring negotiations and debt sustainability outcomes. Using case studies from emerging economies, the authors demonstrate that informal creditors often shape repayment priorities and fiscal decision-making behind the scenes. The research further reveals that such creditors can facilitate or obstruct restructuring depending on their alignment with formal creditors. Ghosal and Thomas emphasize the need to incorporate informal credit relationships into sovereign debt models to achieve more realistic outcomes.

Gurrea-Martinez, A. (2023). Gurrea-Martinez (2023) explores the legal and regulatory frameworks governing debtor-in-possession (DIP) financing during corporate reorganizations. The paper provides a comparative research of U.S., European, and Asian models to identify best practices for maintaining corporate liquidity under financial distress. The author argues that effective DIP financing laws are essential for promoting successful restructurings and preserving firm value. Through critical analysis, the paper identifies regulatory gaps that discourage lenders from extending credit to distressed firms.

Chu, Y., Diep-Nguyen, H., Wang, J., & Wang, W. (2024). Chu et al. (2024) examine the role of shareholder-creditor conflicts in shaping the outcomes of corporate financial distress and

restructuring processes. The research employs an empirical approach using firm-level data across multiple economies to analyze governance factors influencing restructuring success. Findings suggest that misaligned incentives between shareholders and creditors often delay restructurings and reduce recovery value. The paper explores mechanisms—such as convertible debt instruments and hybrid governance structures—that can mitigate these conflicts.

### 3. TYPES OF DEBT RESTRUCTURING



Debt restructuring isn't a one-size-fits-all solution. Depending on whether it's a company, a country, or an individual, the approach can vary. Here's how each type works:

#### Debt Restructuring for Companies

For businesses, debt restructuring typically means negotiating with creditors to modify the loan terms. Companies might extend the repayment period, reduce interest rates, or, in some cases, convert debt into shares. For instance, imagine a company with ₹50,00,000 in debt. It could offer creditors equity in exchange for reducing some of the debt, which helps ease the burden without losing control over operations.

#### Debt Restructuring for Countries

Countries with high national debt sometimes enter into negotiations with international lenders to extend repayment terms or reduce the total amount owed.

This process helps nations manage their debt without jeopardising economic stability.

For example, India might negotiate a new repayment schedule with the IMF if the country is facing economic challenges, providing breathing room to recover before repaying the full amount.

### Debt Restructuring for Individuals

Individuals facing overwhelming debt can negotiate with lenders to lower interest rates, extend repayment periods, or even reduce the total debt owed. This makes it easier to manage debt without risking financial ruin.

For example, let's say you owe ₹5,00,000 in personal loans. By restructuring, you might extend the repayment period to 5 years and reduce the interest rate from 12% to 8%, lowering monthly payments and making it more manageable.

## 4. DATA ANALYSIS

### Balance Sheet of JSW Steel (in Rs. Cr.)

Balance Sheet of JSW Steel (in Rs. Cr.)	2025-2024	2024-2023	2023-2022	2022-2021	2021-2020
<b>EQUITIES AND LIABILITIES</b>					
<b>SHAREHOLDER'S FUNDS</b>					
Equity Share Capital	305	305	301	301	302
Total Share Capital	305	305	301	301	302
Reserves and Surplus	79,534.00	74,978.00	63,358.00	63,200.00	46,675.00
Total Reserves and Surplus	79,534.00	74,978.00	63,358.00	63,200.00	46,675.00
Total Shareholders Funds	79,839.00	75,283.00	63,659.00	63,501.00	46,977.00

### NON-CURRENT LIABILITIES

Long Term Borrowings	55,919.00	47,241.00	48,346.00	41,176.00	39,551.00
Deferred Tax Liabilities [Net]	8,528.00	9,320.00	7,460.00	6,935.00	3,095.00
Other Long Term Liabilities	3,171.00	2,852.00	2,791.00	3,832.00	5,816.00
Long Term Provisions	1,196.00	1,288.00	1,250.00	1,292.00	753
Total Non-Current Liabilities	68,814.00	60,701.00	59,847.00	53,235.00	49,215.00
<b>CURRENT LIABILITIES</b>					
Short Term Borrowings	9,576.00	11,582.00	6,825.00	9,259.00	1,285.00
Trade Payables	8,913.00	12,742.00	30,705.00	24,328.00	12,150.00
Other Current Liabilities	24,910.00	24,754.00	11,570.00	12,320.00	23,362.00
Short Term Provisions	209	376	235	227	243
Total Current Liabilities	43,608.00	49,454.00	49,335.00	46,134.00	37,040.00
Total Capital And Liabilities	1,92,261.00	1,85,438.00	1,72,841.00	1,62,870.00	1,33,232.00

## ASSETS

### NON-CURRENT ASSETS

Tangible Assets	76,253.00	77,243.00	73,255.00	69,767.00	50,328.00
Intangible Assets	2,256.00	2,343.00	1,801.00	1,879.00	1,614.00
Capital Work-In-Progress	10,538.00	10,504.00	10,271.00	12,459.00	28,914.00
Other Assets	0	0	0	0	0
Fixed Assets	89,424.00	90,442.00	85,562.00	84,245.00	80,984.00
Non-Current Investments	33,523.00	30,141.00	24,320.00	18,028.00	12,458.00
Deferred Tax Assets [Net]	0	0	0	0	0
Long Term Loans And Advances	9,710.00	11,501.00	5,346.00	5,763.00	5,382.00
Other Non-Current Assets	13,260.00	10,260.00	8,469.00	7,349.00	4,705.00
Total Non-Current Assets	1,45,917.00	1,42,344.00	1,23,697.00	1,15,385.00	1,03,529.00

### CURRENT ASSETS

Current Investments	5,816.00	0	0	0	0
Inventories	19,819.00	23,234.00	19,517.00	21,028.00	10,692.00
Trade Receivables	5,672.00	6,498.00	6,000.00	6,146.00	3,333.00
Cash And Cash Equivalents	10,261.00	8,129.00	18,716.00	15,527.00	11,746.00
Short Term Loans And Advances	0	4	93	265	733
Other Current Assets	4,776.00	5,229.00	4,818.00	4,519.00	3,199.00
Total Current Assets	46,344.00	43,094.00	49,144.00	47,485.00	29,703.00
Total Assets	1,92,261.00	1,85,438.00	1,72,841.00	1,62,870.00	1,33,232.00

### Cash Flow of JSE Steel

Cash Flow	2025-2024	2024-2023	2023-2022	2022-2021	2021-2020
Net Profit Before Tax	6543	12102	6968	24715	12196
Net Cash From Operating Activities	16891	5449	20444	23335	17733
Net Cash (used in)/from Investing Activities	-9979	-8729	-7361	-17652	-2609
Net Cash (used in)/from Financing Activities	-2270	-5477	-7085	-9134	-7441
Net (decrease)/increase In Cash and Cash Equivalents	4642	-8757	5998	-3451	7683
Opening Cash & Cash Equivalents	4953	13710	7670	11121	3438
Closing Cash & Cash Equivalents	9595	4953	13668	7670	11121

## 5. CONCLUSION

The research on Debt Restructuring Mechanisms in the Steel Sector highlights the critical role of effective financial restructuring in ensuring the survival and sustainability of capital-intensive industries. The steel sector, being cyclical and highly leveraged, often faces challenges related to overcapacity, fluctuating demand, and heavy debt burdens. Proper restructuring mechanisms



supported by sound policies, efficient coordination among stakeholders, and timely interventions can help restore financial stability, enhance operational efficiency, and revive investor confidence. Moreover, the integration of transparent governance, professional expertise, and long-term financial planning is essential to prevent recurring financial distress. Overall, debt restructuring serves not merely as a recovery tool but as a strategic instrument for strengthening the resilience and competitiveness of the steel industry.

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