From Recovery to Revival: Repositioning for Engines of Turnaround

Venkatakrishnan R
The author is an Insolvency Professional (IP) Member of IIIPI. He can be reached at venkatr58@gmail.com

Early warning signs of distress such as —missed repayments, operational slippages, or persistent delays—are critical triggers for the timely admission and rescue of corporate debtors under the IBC. Yet, these signals are too often dismissed as temporary setbacks rather than as indicators of deeper structural and governance failures. As a result, actions are often initiated only when financial distress becomes critical, eroding value for creditors, employees, and the broader market. Besides, creditors' recovery-centric approach hurdles resolutions. Emerging discussions on strengthening Asset Reconstruction Companies and enabling a creditor-in-control regime offer scope for repositioning ARCs as true turnaround sponsors. In the present article, the author discusses various early warning signs of corporate debtors, and the role ARCs can play in their successful revival. ***Read on to know more…***

1. Introduction

In the world of emergency medicine, doctors speak of the "golden hour", that brief but critical window after trauma when timely intervention can mean the difference between life and death. Corporate distress, in many ways, mirrors that dynamic. Businesses too, have a golden hour, a narrow but vital period when warning signs surface, but the core enterprise is still salvageable. It is in this window that financial, operational, and organisational interventions can change outcomes. If this window is missed, what could have been a viable turnaround often deteriorates into an inevitable write-off.

Therefore, there is a compelling need for early and proactive action to save distressed companies. However, institutional and regulatory responses have long tended to treat delay as finality, triggering action only after value erosion has substantially set in and the stakeholder ecosystem is already fractured. By that stage, much of the enterprise's potential is lost not because it was inherently unviable, but because timely intervention failed to occur when recovery was still possible. To alter this trajectory, there is a need to recalibrate our approach by shifting the lens from post default recovery to early pre-emptive intervention before collapse becomes inevitable.

The idea of a "Failure Museum," as described in a Harvard Business Review podcast[1], captures this perfectly. It is not a space to shame, but to study. It catalogues decline not as collapse, but as a pattern of warning signs, misjudgments, and missed opportunities. The exhibits would tell stories not of dramatic breakdowns, but of quiet neglect — how companies that once thrived became footnotes due to lack of adequate response during their golden hour.

This concept is reinforced by several major thinkers. Jim Collins[2] outlines a five-stage decline starting with hubris and culminating in capitulation. Chris Zook and James Allen[3] highlight how complexity outpaces capability when the founder's mindset is lost. Ichak Adizes[4] presents decline as part of an aging corporate lifecycle, where bureaucracy eventually chokes vitality. Yossi Sheffi[5] points to the failure to build resilience, while Aswath Damodaran[6] quantifies decline through shrinking margins, rising payout ratios, and deteriorating reinvestment.

Together, these frameworks reveal one uncomfortable truth - organisational failure is rarely sudden. It is cumulative, visible, and often entirely preventable. What's lacking is not data but will, clarity, and a system prepared to act early.

The Insolvency and Bankruptcy Code, 2016 (IBC or the Code) has given India a structured, time-bound legal framework. However, we have not yet built the institutional imagination to support rehabilitation and focussed on recovery. Asset Reconstruction Companies (ARCs), Bank's Stressed Asset Cells, and even Insolvency Professionals (IPs) are still mostly brought in when salvage is the only remaining option. The opportunity to restore a business and with it, jobs, supply chains, and enterprise value is lost if the action is delayed.

The golden hour in insolvency is real and like in medicine, it is fleeting. We must learn to act when businesses first stumble not when they fall.

The golden hour in insolvency is real and like in medicine, it is fleeting. We must learn to act when businesses first stumble not when they fall.

2. Learning from the Ground

If theory helps us understand the anatomy of decline, experience reveals its emotional and operational complexity. Businesses that appear broken on the surface often carry within them the seeds of renewal. This could be explained well with the following illustrative examples:

Case 1: This case involved a manufacturing company producing commodity products. The company reported financial losses, including negative gross margins in several financial years, which led to the commencement of the insolvency process. On paper, it appeared beyond revival. However, instead of jumping straight into asset monetisation, the RP began by establishing an operating-matrix, a simple but rigorous daily monitoring system. The system was designed to track input consumption, output realisation, and working capital movements. As the company was

[1] Harvard Business Review Podcast. The Failure Museum: Lessons from Corporate Decline. Harvard Business Review, 2022.

[2] Collins, Jim. How the Mighty Fall: And Why Some Companies Never Give In. HarperBusiness, 2009.

[3] Zook, Chris, and James Allen. The Founder's Mentality: How to Overcome the Predictable Crises of Growth. Harvard Business Review Press, 2016.

[4] Adizes, Ichak. Corporate Lifecycles: How and Why Corporations Grow and Die and What to Do About It. Prentice Hall, 1988.

[5] Sheffi, Yossi. The Resilient Enterprise: Overcoming Vulnerability for Competitive Advantage. MIT Press, 2005.

[6] Damodaran, Aswath. The Corporate Lifecycle: Business, Investment, and Management Implications. Stern School of Business Working Paper, 2020.

too small to afford a full-scale ERP system or digital controls, the RP introduced a few precise interventions that changed the operating culture. One such step was installing a CCTV camera near the vehicle entry gate and integrating weighbridge data directly into the system. This removed the old practice of manual entry and thereby reducing the risk of manipulation. This was not merely a control mechanism. It conveyed a clear signal that while trust was placed, steps will also be initiated to verify compliance. Once the input-output ratio was understood and monitored, operational control resumed. Sales were fully accounted for. Procurement became more measured, and leakages were curbed. With these basic steps, the company began generating positive cash flow within the first few weeks of the resolution process.

Case 2: This case was in the service sector. Although the financial profile of the corporate debtor was different, the response required was equally fundamental. Gross margins were inconsistent. The management of receivables was poor and employees' morale was visibly low. The focus of the RP was on restoring margin discipline, enforcing customer credit controls, and aligning employee roles more closely with value maximisation of the company.

As in the previous case, statutory dues were paid as priority, and salaries of employees were disbursed on time. Critical vendors were engaged through open discussions. They were informed that only current dues could be paid. However, continued cooperation would improve their chances of recovery on past dues through ongoing operations. It was also made clear that stopping supplies would eliminate this possibility altogether. As cash flows improved and payments became predictable, vendors aligned with the operational requirements.

A similar approach was followed on the employee side. A longstanding concern was that salaries had not been revised for over two years. Once cash flows began to stabilize, a structured increment plan was introduced. It included a variable component linked to monthly performance. Senior executives had a higher variable component, while junior staff received a higher fixed increment. This structure was well received and led to more consistent performance in revenue and collections. Employees responded positively to the financial and ethical clarity, gradually moving from guarded compliance to active participation.

> *When people saw that the operations were real, commitments were being honoured, and there was no pretence or posture, the environment changed.*

The common thread in both cases was not financial restructuring but a systematic return to basics. These were not turnarounds driven by capital infusion or legal innovation. They were driven by transparency, discipline, and a sincere effort to rebuild trust, both internally and externally. When people saw that operations were genuine, commitments were being honoured, and there was no pretense, the environment changed.

Both companies could have avoided formal insolvency if action had been taken earlier. This could have happened through structured financial monitoring, behavioural nudges, or timely credit discipline. The warning signs were visible for months, and in some cases, for years. The entrepreneurs were committed and passionate, but they were stretched beyond their managerial capacity. Bankers, who were working within the limitations of the pre-IBC framework, lacked the legal protection needed to initiate conversations or enforce timely corrective measures.

A key enabler in both cases was the support of the Committee of Creditors (CoC) and later, the Stakeholders' Consultation Committee (SCC). Their confidence stemmed from visible operational discipline and positive cash flows during the insolvency process. The CoC largely adopted a hands-off approach, but remained alert and engaged. Their support came with a clear expectation of accountability, which was reinforced through transparency and effective communication strategy.

Resolution, therefore, is not only about recovering value. It is about rediscovering it. Often, it simply requires listening carefully to how the business is functioning and restoring accountability.

3. The Golden Hour that was Missed

Most failing organisations show signs of distress long before collapse. Jim Collins, in *How the Mighty Fall*, describes five stages of decline, from hubris born of success to eventual capitulation. In the second stage, the undisciplined pursuit of more, companies expand aggressively without adequate operational readiness. Zook and Allen, in *The Founder's Mentality*, argue that as organisations grow, they lose their insurgent mindset and become burdened by complexity. Adizes' corporate lifecycle model similarly shows that growth without institutionalisation leads to bureaucratic rigidity. Aswath Damodaran, in *Corporate Life Cycles*, adds a financial lens, noting that declining firms often exhibit shrinking margins, rising payout ratios, and weak reinvestment outcomes. If monitored, these indicators can serve as early warnings of strategic drift or structural weakness.

> ***One of the less discussed, yet critically damaging patterns in many distressed companies is the failure of governance not just in terms of compliance, but in the lack of meaningful oversight.***

These models mirror ground realities like missed statutory payments, rising receivables, higher attrition, and improvised fixes that conceal deeper problems. Less discussed but frequently observed is the mismatch between entrepreneurial ambition and management capacity. This is not just about manpower, but the ability to manage complexity and uncertainty. In the search for liquidity, entrepreneurs often raise funds against unencumbered assets outside the knowledge of primary lenders. In such a situation, multi-bank borrowings often escape consolidated scrutiny, distorting the real risk assessment. Even the compliance systems often fail to alert lenders until the stress becomes impossible to ignore.

One of the less discussed yet damaging patterns in distressed companies is failure of governance. This is not limited to compliance but reflects the absence of meaningful oversight. In many cases, the company board is indistinguishable from the promoter group or consists only of family members and passive directors. There is no real separation between ownership and management. As a result, strategic decisions go unchallenged, risk appetite remains unchecked, and feedback from customers, vendors, or employees remains unaddressed.

Instead of functioning as a governance body, the company board becomes a forum to ratify decisions already taken, often driven by emotion or defensiveness. This creates a vacuum in accountability. The absence of independent voices delays course correction and sometimes leads to active resistance. Larger companies may retain some degree of structured dissent or risk evaluation. In closely held firms, especially MSMEs, these risks are magnified. As distress deepens, the lack of external scrutiny becomes disastrous. Gradually, poor decisions compound and no one feels authorised to raise concerns. This governance gap weakens the enterprise's ability for self-correction on time.

In both cases, signs of decline were visible well before default - margins slipped, payment delays increased, vendor complaints rose, dependence on informal cash flows grew and short-term borrowings increased. They should have triggered concern and prompted management to take timely action.

Many companies remain under the radar for months or even years while staying in Special Mention Account (SMA-1) or SMA-2. They remain technically compliant but are behaviorally stressed. Bankers often take comfort in the fact that such accounts have not yet turned into NPAs. The focus stays on avoiding slippage rather than understanding the stress beneath. This creates a false sense of comfort and delays timely intervention.

What is needed is sharper alertness to patterns. If a company appears in SMA-2 more than three times in four months, or repeatedly in SMA-1 across two quarters, it is not just delayed but signaling distress. Recognizing this early and starting structured discussions or corrective plans can push entrepreneurs to confront reality and act in time.

> ***India urgently needs institutional mechanisms to act during the golden hour before distress becomes default, and default becomes disaster.***

Financial stress is not only a liquidity problem but reflects deeper structural and operational misalignment. When financial stress appears, the response of the management is usually to patch, borrow, or defer, rather than restructure. Even when problems are visible, lenders hesitate to act, due to regulatory inertia and fear of later scrutiny. Thus, by the time an account formally enters insolvency process, most options have already narrowed. Reputation is damaged, suppliers have moved on and employees lose faith and working capital is frozen or fully encumbered. This is no longer the golden hour. It is the stage of intensive care unit (ICU). India urgently needs institutional mechanisms to act during the golden hour, before distress turns into default and default becomes disaster.

4. Reimagining the Institutional Role: Beyond Recovery

The recent discussion of the Reserve Bank of India (RBI) on widening capital-raising avenues for Asset Reconstruction Companies (ARCs) is noteworthy. If implemented with intent, it could move ARCs from being recovery intermediaries to real turnaround sponsors. At present, most ARCs function like asset sale agents. They buy stressed debt at a discount, securitize it through security receipts, and focus on cash recoveries. This behaviour is structural. It stems from the design of the ARC regime, debt-centric mandates, limits on equity and control, dependence on bank funding, and incentives that reward speed of recovery rather than revival. Although the IBC introduced a formal restructuring route, ARCs rarely lead resolution plans. They usually participate in the CoC meetings and prefer upfront cash. The outcome is predictable. Assets are monetized in parts, value leaks away, operating creditors and employees lose out, and value of the corporate debtor deteriorates.

The scope of ARC activity is defined by RBI master directions and Section 10 of the SARFAESI Act. Permitted functions include securitization, acquisition of financial assets, settlement of dues, and takeover of management. Within this, Section 15 of SARFAESI is critical. It allows secured creditors, including ARCs, to take over management in a prescribed manner, while requiring restoration once dues are recovered. The law treats takeover as an exceptional but legitimate tool to protect value. RBI regulations add further safeguards such as claim thresholds, consent of security receipt holders, independent committee review, and board oversight. These checks were meant to prevent misuse, but in practice they leave ARCs with very limited control.

Judicial decisions reflect this tension. In *Kalyani Sales Co. v. Union of India* (2006), the Bombay High Court held that SARFAESI's powers, though wide, must follow due process. In *Mardia Chemicals v. Union of India* (2004), the Supreme Court upheld the Act's validity but stressed reasonableness and a fair opportunity for borrowers. On management takeover, *ICICI Bank v. APS Star Industries* (2007) observed that Section 15 should be used sparingly and only to protect secured creditor interests. Courts have thus recognised the power of takeover but confined it through procedural fairness and proportionality. This makes ARCs cautious as any lapse can undo their actions through litigation.

> ***The initiation of management takeover under Section 15 of SARFAESI does not create the immunity and clean slate that are indispensable for a genuine turnaround.***

A deeper structural paradox remains. A takeover under Section 15 does not offer the clean slate needed for a true turnaround. Past liabilities and contractual burdens continue, limiting the effectiveness of new management. The IBC, by contrast, provides a statutory fresh start. Yet for ARCs, access is indirect. Even if an ARC triggers CIRP under Section 7, it must pass through the NCLT process, compete with other applicants, and remain subject to the 26 percent equity cap.

What is needed is a comprehensive review of the IBC framework to create space for Pre-Packaged resolution plans led by ARCs, without an artificial cap on shareholding. A Pre-Pack would allow ARCs, in consultation with creditors and regulators, to design revival plans and implement them quickly while retaining safeguards for transparency and fairness.

Concerns on promoter accountability can be addressed through built-in claw-back mechanisms. Promoters may be allowed a limited role in the turnaround, subject to clear and enforceable recovery provisions if misconduct is found later or performance targets are not met. This approach balances the value of promoters' knowledge in certain businesses with strong external oversight. It will ensure that revival remains genuine and does not become a route for regulatory arbitrage.

RBI's reported willingness to broaden the ARC investor base to mutual funds, insurers, Alternative Investment Fund (AIFs), and potentially High Net-worth Individual (HNIs) addresses a basic constraint – low ARC capital. Deeper and more patient capital is essential for revival. However, capital alone will not change outcomes if regulation still pushes ARCs to behave like debt traders. For ARCs to play a constructive role within the IBC ecosystem, three linked shifts are required:

a) **Mandate:** ARCs were created under SARFAESI to acquire and reconstruct non-performing assets. In practice, they are engaged in enforcement and recovery. The mandate now needs to clearly recognize company-level turnarounds as a valid resolution route. The Reserve Bank of India (RBI) should allow ARCs to design revival plans, sponsor IBC resolutions, and hold structured equity or quasi-equity for a limited period where this is necessary to restore viability.

b) **Control:** Effective turnarounds require real authority. This includes board control, management changes, working capital normalization, vendor realignment, and sometimes fresh capital expenditure. Current equity caps and the reluctance to give ARCs control over the corporate debtor prevent them from executing operating plans. Therefore, ARCs should be permitted to hold controlling stakes for a defined period, subject to fit-and-proper norms and a time-bound exit. Without this, ARCs will continue to focus on collateral value rather than enterprise value.

c) **Incentives:** Presently, ARCs revenue is linked to faster recoveries and margins. This naturally favors auctions and asset sales. If revivals are to be encouraged, fee structures and security receipt waterfalls must reward going-concern outcomes. Speed of recovery should not outweigh value recovered. Waterfalls can be redesigned so creditors are no worse off under a successful revival, while ARCs earn a calibrated upside for restoring businesses and delivering higher net present value.

The IBC context is crucial. In theory, any person, including an ARC, can be a resolution applicant. In practice, ARCs remain constrained. They depend on banks to subscribe to security receipts, hold only one vote in the CoCs that often prefer cash bids, and are viewed as recovery entities. As a result, their role is limited. They aggregate stressed debt, take it through the IBC, and wait for a third-party bidder.

A more constructive role of ARCs would begin with a dedicated turnaround sleeve within ARC structures. These would be ring-fenced pools that acquire stressed assets with a clear revival plan. Capital in such sleeves should include long-term institutional investors and AIF commitments with a three-to-five-year horizon. The capital structure must be flexible. Debt can support stabilization, while convertible or preferred equity can repair balance sheets. Performance-linked instruments can align management and creditor outcomes. Control should be temporary but meaningful. Risk governance must be robust, with sector experts, independent credit committees, KPI dashboards, and quarterly CoC reporting focused on cash EBITDA, working capital cycles, customer retention, and compliance, not just recovery rates.

Banks also benefit under this model. Reviving a going concern typically delivers higher recoveries than asset break-ups. It protects jobs and supply chains and reduces spillover stress across other borrower accounts. Operational creditors and MSME vendors, often wiped out in recovery-led approaches, gain from continuity of businesses. For promoters with clean conduct but exposed to shocks such as tariffs, supply disruptions, or technology shifts, a turnaround route preserves productive capacity while enforcing discipline.

From a policy perspective, four changes are critical:

(a) Allow ARCs to hold time-bound controlling equity under approved plans, with clear exit timelines.

(b) Reduce reliance on bank-funded security receipts by permitting wider third-party participation and requiring more ARC capital.

(c) Recognize revival outcomes in regulatory assessment, with disclosures distinguishing liquidation recoveries from going-concern restorations.

(d) Create an expedited IBC path for ARC-sponsored plans that meet defined viability criteria, giving CoCs a faster and credible alternative.

The RBI's discussion offers a chance to reposition ARCs from managers of bad loans to active turnaround agents. Broadening funding is only the first step. Real change will come when mandate, control, and incentives align with revival. That shift would deliver not just cleaner bank balance sheets but more saved enterprises, preserved jobs, and resilient supply chains. It would also require India-specific turnaround funds. These blended vehicles would combine ARC expertise, private equity discipline, and bank capital. They would intervene during the golden hour, with capital, governance, and professional oversight, rather than waiting for liquidation.

> ***Ultimately, our success will not be measured by how efficiently we auction assets, but by how many viable businesses we were able to save from becoming scrap.***

Such a reimagined institutional framework would reduce the financial cost of delays and restore industrial capability, protect jobs, and foster a culture where early admission of problems is met with structured support, not stigma.

5. Toward a Resolution-First Ecosystem

India must now move from recovery-centric thinking to a resolution-first ecosystem. IBC has provided a legal foundation. The next step is institutional courage.

We must reward early detection, build credible rehabilitation mechanisms, and empower professionals to intervene before value is lost. The financial distress of a corporate debtor should be seen as a process, not a punishment. SMA flags should prompt engagement, not merely escalation. ARCs should move from asset monetization to enterprise management. From a policy perspective, what is required is a balance between patience and speed. Patience is needed to stabilize operations, while speed is essential to prevent further decay. Achieving this balance calls for regulatory agility, legal clarity, and a mature market response.

Ultimately, our success will not be measured by how efficiently we auction assets, but by how many viable businesses we were able to save from becoming scrap. In the long arc of economic resilience, saving a business is always more valuable than salvaging an asset.