ILLUSTRATION: BINAY SINHA

The lemon-plus problem in corporate rescues

Unhealthy cultural templates erode enterprise value, denting the feasibility of rescue

Price of distress (₹ crore)

Company	Claims	LV	FV	RV
Fortuna Buildcon India	175.1	20.2	25.9	50.4
Shree Aasharaya Infra-Con	9.4	30.6	31.1	10.5
Purulia Metal Casting	454.7	48.4	65.2	53.1
Bharatiya Vaidya Vidhan	152.5	49.4	66.6	30.6

LV: Liquidation value; FV: Fair value; RV: Rescue value

The strategic divestment of Air India and its subsidiaries by the Government of India to the Tatas was technically a sale, but in essence, a rescue of a flailing airline. It was, however, a classic case of the "lemon-plus problem": Not only the information asymmetry typical of used products, but also the weight of entrenched cultural baggage.

What deterred investors in earlier attempts to sell Air India was not so much the financial liabilities or ownership restrictions, but the perceived difficulty of reforming an organisational culture shaped over nine decades under very different managements: The Tatas (1932–1953) and the Government of India (1953–2022). For the Tatas, the eventual takeover was less a commercial decision than a moral reclamation, driven by legacy, national pride, and emotional commitment. This highlights the potential of cultural baggage to complicate, or even derail, corporate rescues, regardless of their financial or strategic rationale.

M S SAHOO & CKG NAIR

Companies undergoing rescue under the Insolvency and Bankruptcy Code, 2016 (IBC) are no different. Axiomatically, they are lemons. Many, like Air India, suffer from lemon-plus problems. The IBC seeks to rescue viable companies. In principle, a company is viable when it has a going concern surplus (GCS), that is, the excess of its fair value (FV) over its liquidation value (LV). It is the GCS that incentivises the market to step in to rescue a distressed but viable entity.

Data from the Insolvency and Bankruptcy Board of India's January-March 2025 Newsletter shows that the market values the GCS unevenly. Of the 66 companies rescued, 32 fetched rescue values (RVs) above their FVs, 15 received RVs below their LVs, and 19 secured RVs between their LVs and FVs. Put differently, in nearly half the cases, as with Fortuna, the market paid for the GCS in full, plus a premium; in 15 cases, as with Shree Aasharaya, it disregarded the GCS altogether; in 19 cases, as with Purulia, it recognised only a part of the GCS.

The IBC does not require the RV to align with any benchmark. The market usually captures a part of the GCS. The share captured depends on multiple factors: The efforts and negotiation strategy of the committee of creditors, the prevailing business and credit cycles, the competitive intensity among resolution applicants, the regulatory climate, existing encumbrance or restrictions on the assets and operations, and the overall confidence in the debtor's governance and prospects.

Why the market proposes or approves a plan with an RV below the LV is not immediately clear. One explanation is that creditors may prioritise recovery of admitted claims, even if this is lower than LV or FV, as in Shree Aasharaya. But there are cases, like Bharatiya, where the plan fell short of all benchmarks and was still approved. Conversely, there are several cases where the market paid more than the FV. Such outcomes under the IBC call for deeper inquiry. Forces beyond financials are evidently at play.

Even where a business holds valuable assets, the market may refrain from bidding or offer an RV at a deep discount to the LV, often puzzling valuation experts. A plausible explanation lies in organisational culture: Its ethos, work practices, employee morale, or governance style. These cultural undercurrents, though not visible in financial statements, weigh heavily on bidders' assessments of future viability. A culture resistant to change or misaligned with a rescuer's vision can deter new ownership, pushing companies towards liquidation or depressing RV below LV, signalling hidden negatives.

At the same time, there are instances where RVs have exceeded FVs by significant margins. These reflect "soft positives", such as the perceived integrity of the promoter group, a resilient organisational ethos, effective employee relations, or enduring brand goodwill. Such intangibles, though absent from balance sheets, often inspire bidder confidence beyond what tangible assets justify. Even a second-hand car, driven by a service officer, as reflected in old advertisements, commands a higher price.

A rescue plan always entails risk-taking: Reviving or nurturing a limping entity back to health, often one whose assets have been idle for years, or which survives only on a wing and a prayer. The rescuer acquires a "second-hand" enterprise — disoriented human resources, entrenched ethos, and exhausted assets. It is akin to acquiring a sick, old elephant with behavioural issues: Difficult to manage, costly to maintain, and slow to respond to change.

Many businesses fail not due to economic, business, or technological shortcomings, but under the weight of their cultural milieu. Over time, they allow physical assets to decay and financial value to erode, while fostering a mindset of resignation and helplessness that profoundly devalues the enterprise. Reviving such entities demands Herculean effort, so their resolution seldom attracts rescuers. The challenge deepens when resolution drags on: The committee of creditors and resolution professional-led management often add another layer to the complex cultural template.

The entrenched cultural templates surface in unpredictable ways, even in the case of mergers. This explains why some voluntary mergers or acquisitions, undertaken after detailed studies and valuations, fail to deliver the expected synergies for the combined entity. The Tata Group bought Air India on a standalone basis but decided to merge it with Vistara, a young and vibrant airline. It became a case of superimposed cultural templates, with the culture of the older component impacting the enterprise efficiency matrix.

Against this backdrop, dismissing successful rescues as "under-recoveries" by benchmarking them against the original book value of assets or the amount of outstanding debt undermines the achievements of the IBC. Such criticism overlooks the legal position, the inherent "lemon problem" in stressed asset markets, and the powerful role of cultural templates in shaping outcomes.

Rescue, therefore, is as much a matter of culture as of capital. Recognising these "soft" cultural factors alongside hard valuations is essential to explain why some rescues falter while others surpass all benchmarks. Proper appreciation of IBC outcomes demands attention to this cultural dimension.

The authors are, respectively, former chairperson, Insolvency and Bankruptcy Board of India, and former member, Securities Appellate Tribunal