

**UNDERSTANDING THE LIFECYCLE OF ZOMBIE FIRMS: IDENTIFICATION,
SURVIVAL, AND SOURCES OF FUNDING**

NITEESH KUMAR S

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Chennai- 60002

ABSTRACT

This study examines the identification, financial characteristics, and life cycle dynamics of zombie firms in India's non-financial sector. Although zombie firms constitute a small share of the total firm population, they account for a significant share of total debt and assets, posing systemic risks to the economy. This study finds that firms express clear signs of financial deterioration well before transitioning into zombie status. Once in zombie status, firms increasingly depend on debt, and indicate limited recovery in core performance metrics. Major finding reveals that the type of funding significantly influences both the likelihood of a firm becoming a zombie and its trajectory thereafter: firms relying on equity financing are less prone to enter zombie status, more likely to recover if they do, and less likely to relapse; in contrast, those dependent on bank financing face a higher probability of becoming zombies, experience prolonged financial distress, and are more susceptible to relapse. The number of banking relationships plays a crucial role in increasing the risk of zombification and promoter pledging emerges as a significant coping mechanism, reflecting personal financial exposure to keep distressed firms afloat. Findings from survival analysis substantiate that firm funding structure and financial behaviour significantly shape continuation, recovery, and relapse of zombie status.

Keywords: Zombie Firms, Zombification, Firm Behaviour, Banks, India