CIRRUS The Indian EXPRESS CIRRUS

Fri, 03 May-19; Indian Express - Delhi; Size : 902 sq.cm.; Circulation:77942; Page : 16

BANKS CAN'T INITIATE RECOVERY PROCESS AGAINST IL&FS ENTITIES

NCLAT allows banks to declare over ₹53K cr exposure to IL&FS as NPAs

NCLAT had said in Dec 2018 that IL&FS accounts should not be classified as NPAs without its approval

ENS ECONOMIC BUREAU
MUMBAI, MAY 2

MORE THAN Rs 53,000-crore bank loans to crisis-hit Infrastructure Leasing & Financial Services (IL&FS) are likely to be added to the bad loans book of banks with the National Company Law Appellate Tribunal (NCLAT) on Thursday allowing lenders to declare the accounts of IL&FS and its subsidiaries which have defaulted on payments as non-performing assets (NPAs).

Acting on a plea by the Reserve Bank of India (RBI), an NCLAT bench headed by Justice S J Mukhopadhaya lifted the embargo on banks to declare the accounts of IL&FS and its 300 group entities as NPAs.

However, the appellate tribunal has ordered that the banks cannot initiate recovery process against IL&FS entities and observed that lenders must not withdraw support until a resolution is found. The total debt of the IL&FS group is more than Rs 91,000 crore.

The RBI moved an application after the NCLAT had said in December last that the IL&FS accounts should not be classified as NPAs without its approval. IL&FS group companies are undergoing a resolution process, and the group's loans are now expected to push up the NPAs of many banks. SBI has an exposure of around Rs 3,800 crore spread across 10-12 special purpose vehicles.

On November 1, 2018, the new board of IL&FS led by Uday Kotak cautioned that the Rs 53,000 crore exposure of banks to IL&FS is "critical to financial stability" as its share in the total exposure of the banks to the non-banking financial company (NBFC) sector is about 16 per cent. In its report on the state of affairs at IL&FS, the board warned that the "future impact of more defaults in the group, if not addressed in an orderly manner, may be catastrophic for financial stability."

The Ministry of Corporate Affairs had noted in the Original Petition — based on a confidential note dated September 30, 2018, from the Department of Economic Affairs — that on a consolidated basis, the borrowing of IL&FS from banks and financial institutions (debentures, loans, cash credit and commercial paper) comes to about Rs 63,000 crore as per the balance sheet of 2017-2018.

"If the exposure of banks to the IL&FS Group is assumed to be about Rs 53,000 crore, then considering that the exposure of the entire banking sector to all NBFCs is about Rs 3.3 lakh crore, IL&FS group is not inconsequential, but critical to the financial stability as its share in the total exposure of the banks to the NBFC sector is about 16 per cent," the board had stated in its report submitted to the National Company Law Tribunal (NCLT) last year.

The IL&FS group owes Rs 25,767 crore towards investment in non-convertible debentures (NCDs) by investors, commercial paper (CP) Rs 3,028 crore, NBFCs Rs 1,707 crore, corporates Rs 1,102 crore, financial institutions Rs 9,137 crore and foreign banks Rs 6,030 crore, the report said.

The board warned that the cascading impact of the default by the IL&FS group on the financial sector would be quite substantial as evidenced from a partial default of some companies and its repercussions in the financial market in the month of September 2018.

"The future impact of more defaults in the group, if not addressed in an orderly manner, may be catastrophic for the financial stability," it said.

Any sudden impairment in its ability to finance and support infrastructure projects would be quite damaging to the overall infrastructure sector, financial markets and the economy, considering its systemically important nature and its borrowing level of Rs 91,000 crore. "Therefore, the timely intervention by the Union of India was required to prevent collapse of the IL&FS group and to limit the contagion effect on the markets," the report said.

The key financial issue affecting the IL&FS group is high level of aggregate leverage which is disproportionate to the aggregate economic value of its business assets, or cash flows.

This has understandably led to inadequate cash flows impacting its solvency and day to day operations. The mismatch of cash flows is compounded by diverse nature and type of creditors and the structure of the IL&FS group as that increases the difficulties in using the surplus cash flow at the operating entity level.

On October 1 last year, the Centre had moved the NCLT to supersede the board of IL&FS, which had defaulted on payments.

'16% SHARE OF ALL NBFC LOANS'

- **The new board of IL&FS Group, led by Uday Kotak, had said in November last that the group's share in the total exposure of banks to the NBFC sector is about 16%**
- **Ministry of Corporate Affairs had noted that on a consolidated basis, borrowing of IL&FS from banks & financial institutions is around ₹63,000 crore as per the 2017-2018 balance sheet**