

IL&FS: Miles to go for resolution

The 270-day NCLT deadline is over but the new board and investigating agencies are just about warming up

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On July 1, the Infrastructure Leasing and Financial Services (IL&FS) completed 270 days, the resolution timeline set under the Insolvency and Bankruptcy Code, since the Ministry of Corporate Affairs (MCA) took it to the National Company Law Tribunal (NCLT). In these nine months, the new board and investigating agencies such as the Serious Fraud Investigation Organisation (SFIO) have brought to light many startling facts about the group.

India's biggest financial sector crisis started with a small default by a subsidiary, IL&FS Transportation Networks (ITNL), in June 2018. There were a few murmurs then, but most investors and rating agencies thought it was an aberration in a group that had a spectacular track record, strong management skills and marquee shareholder names — practically the who's who of India's financial services sector (see box).

There was good reason to be complacent. The management included industry veterans such as Ravi Parthasarathy, Hari Sankaran and Arun Saha. The independent directors on the boards were Maruti Suzuki's R C Bhargava, former bureaucrat Michael Pinto, former LIC chairman Sunil Mathur, former country head of Citicorp Jaithirath Rao and legal practitioner Rina Kamath.

The domino effect was triggered in September last year when IL&FS itself defaulted on a ₹1,000 crore short-term loan from Sidbi. With the group owing a whopping ₹90,000-plus crore to banks, mutual fund houses and other creditors,

there was a widespread fear of contagion. The management's effort to resolve the default through a rights issue of ₹4,500 crore failed, spooking markets and lenders even more. The government, which had initially said the company should resolve these crises on its own, was forced to step in. On October 1, the MCA moved NCLT to supersede the board. The SFIO started investigations around the same time.

The new board, led by Kotak Mahindra Bank's managing director and chief executive officer Uday Kotak appointed Tech Mahindra's Vineet Nayyar as executive vice chairman and

three former and current officers of Indian Administrative Services — C S Rajan (managing director), Bijay Kumar (deputy managing director) and Malini Shankar (non-executive director). ICICI Bank's non-executive chairman G C Chaturvedi, former CAG Nand Kishore and Murugappa group former director of finance N Srinivasan are three non-executive directors.

The board has had multiple challenges — including understanding the depth and spread of the contagion hidden behind a complex maze of shadow companies, the financial health of each company, inter-company dependencies, shareholders and lender details, and projects at hand.

The Herculean task for the board can be understood with this simple example: When the MCA approached the NCLT, the number of companies in the group was assumed to be 169. At last count in May, the number stood at 302 — after adjusting for the closure of 45 entities —



IN A DEBT TRAP

Equity shareholding pattern of IL&FS as on December 31, 2018

Name of the shareholder	Number	%
Life Insurance Corporation of India	32,541,123	25.34
ORIX Corporation, Japan	30,227,509	23.54
IL&FS Employees Welfare Trust	15,410,382	12.0
Abu Dhabi Investment Authority	16,129,252	12.56
Housing Development Finance Corporation Ltd	11,587,194	9.02
Central Bank of India	9,843,386	7.67
State Bank of India	8,237,967	6.42
UTI – Unit Linked Insurance Plan – UTI Asset Management Co Ltd	1,051,111	0.82
India Discovery Fund	1,104,211	0.86
Others	2,271,141	1.77
Total	128,403,276	100.00

Source: IL&FS

THE FIRE SALE

The 55 assets in India include:

- 21 Domestic road assets
- 11 Renewable energy
- 10 Alternative investment fund management
- 7 Thermal power projects
- 4 Education
- 2 Securities business

Note: The board is also trying to sell projects in China, USA, Dubai and other countries. Then, offices, residential properties and cars are also up for sale

including 133 foreign entities and 169 domestic companies.

In the first few weeks of taking over, the board appointed its nominees on key subsidiaries, initiated austerity measures, began a full audit of standalone and consolidated accounts, formed a core operating committee under Nayyar and started to work towards a resolution plan.

COLOUR-CODED COMPANIES

Green

54 companies with debt of ₹10,472 CR can fully service all debt

Amber¹

13 companies with debt of ₹16,372 CR can partially service debt

Red

82 companies with debt of ₹61,375 CR cannot service debt

The board, thereafter, appointed Arpwood Capital and J M Financial as financial and transaction advisors. It also roped in Alvarez Marshall to maintain strict liquidity controls, manage stakeholders and help develop a resolution plan.

The board submitted its first progress-and-way forward report to the NCLT on

October 30, 2018. Given the large number of assets across group companies, this board would be executing the biggest fire sale ever in corporate history (see box).

Expression of interests have come for most projects and properties, but the board is yet to take a call on the final bidders. The lacklustre response to the bidding process had primarily been on concerns of missing representations and guarantees in the projects being sold. This has also restricted many firms from bidding in the last stage of the stake sale process. Asked about this, IL&FS spokesperson Sharad Goel declined to comment on the status of the bids.

The only (nearly) done deal seems to be the sale of wind power plants in which Japan's Orix Corporation, which owns 49 per cent in each of the seven operating wind power plants, has expressed its intent to buy out the remaining 51 per cent stake held by IL&FS Wind Energy — the first resolution within the 270 days.

The new team has also identified companies that will be able to service the debt basis of 12-month cash flow solvency test and grouped them into green, amber and red categories (see box).

Meanwhile, SFIO in its first chargesheet, has made multiple accusations against the management of IL&FS — evergreening of loans to boost profits, high investment in unrated papers and collusion with auditors at covering up. Former executives such as Hari Shankaran, Arun Saha and K Ramchand are in jail. Similar chargesheets are expected for various other companies within the group.

IL&FS' implosion was a shocking multi-level malfunction — of the board and independent directors, rating agencies, auditors and shareholders. And the new board's challenge to provide group-level resolution will require a substantial amount of time. Clearly, there is a long way to go before IL&FS saga's epilogue is written.