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'Red' IL&FS entities account for more than two-thirds of group's overall debt

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OUT OF total debt of more than Rs 89,000 crore held by Indian entities of the IL&FS Group, as much as Rs 61,375.6 crore was held by 82 entities which were not able to meet payments to even senior secured financial creditors. These companies have been classified as 'red' entities by the IL&FS resolution consultant. Red entities are those which cannot meet their respective payment obligations towards even senior secured financial creditors as and when they fall due in the testing period.

Of the total 302 IL&FS entities, 169 are Indian entities carrying total external fund based debt of about Rs 89,246 crore, as per the fifth progress report on the group's resolution process and the way forward, submitted to the Mumbai-bench of the National Company Law Tribunal (NCLT) on Wednesday.

Among the 169 Indian entities, the resolution consultant has classified 158 entities into 'red', 'amber' and 'green' categories — based on a 12-month cash flow based solvency test. Classification for remaining 11 entities is underway.

Green entities are those which are able to meet their financial and operational payment obligations through their operations and existing cash flows. These entities do not rely upon other IL&FS Group entities for any financial support to service its debt obligations.

Amber entities, meanwhile, are those which were unable to meet all their respective obligations — financial and operational — during the testing period but can only meet operational payment obligations and payment obligations to senior secured financial creditors.

The progress report shows that entities classified as red and amber comprise over 87 per cent of the total outstanding debt of over Rs 89,000 crore. Apart from red entities, 13 amber entities carry debt of Rs 16,372.6 crore. A total of 55 entities have been classified as green, which carry debt of Rs 11,022.9 crore.

This reveals the scale of the challenge at the hand of new board of Infrastructure Leasing & Financial Services (IL&FS) which is trying to deal with the mountain of NPAs that has gripped the financial sector through a series of default. The collapse of IL&FS engulfed the entire NBFC sector, leading to a broader slowdown in the economy and forcing the government to supersede its board.

Separately, as per a March 22, 2019 Reserve Bank of India inspection report on IL&FS included in the progress report, the group did not declare bad loans in the four fiscals till March 31, 2018.

The RBI inspection report also found that that non-performing assets (NPAs) on IL&FS' books were as high as 70 per cent of its total loans and advances by March 31, 2018. It further noted said that "wide divergences were observed" between the reported and the assessed position of asset classifications and provisions at IL&FS.

"The erstwhile Board failed to exercise oversight over the functions of the entity. They did not monitor the affairs of the downstream entities in which investments were made," RBI said in its report, adding that that serious deficiencies in credit appraisal, and loans were given to unrated or poorly rated borrowers.

As per the progress report, IL&FS has started process of sale of assets, group companies, real estate, cars and other cost cutting measures to put its house in order. For instance, in the case of IL&FS Engineering & Construction Company Ltd, the manpower on rolls of the firm has reduced by 57 per cent from October 1, 2018 till June 30, 2019, leading to 58 per cent reduction in the wage bill. Cost of contract staff was also fell by 90 per cent in the same period.

Across the group, head count decreased by 43 per cent from October 1, 2018 till June 30, 2019, leading to savings of nearly 47 per cent in annualised wage bill, the progress report said, without specifying the number of employees that were laid off.

However, the process for sale in the case of IL&FS Securities Services Ltd (ISSL) was put on hold due to regulatory scrutiny. The group had invited expressions of interest for a potential acquisition of the company on November 13, 2018. "However, the sale process of ISSL was kept on hold inter alia in view of the investigation of Sebi and EoW (Economic Offences Wing) in relation to certain mutual fund units provided as collateral for trades (in Option Contracts) conducted by Allied Financial Services Pvt. Ltd (a client of ISSL)," the report said.

EXPLAINED E.

Question marks over lending practices of financiers

WHILE THE quality of loan book of a finance company is key to its liquidity, it has now come to light that over two thirds of IL&FS debt has been in its group companies that are not in a position to repay their obligations, thereby rendering the lenders at liquidity risk.

This not only reflects on financial health of IL&FS group companies but also raises question marks over the lending practices of its financiers.