

Did bureaucratic cover help IL&FS?

By: [Sunil Jain](#) | Updated: October 1, 2018 3:22 AM



While the government's immediate job is to ensure there is no contagion from the IL&FS default—that's where LIC's lifeline comes in—sooner rather than later, it has to probe whether the fact that IL&FS had so many ex-bureaucrats on its rolls, and serving ones acting as chairmen of several SPVs, helped facilitate very lucrative deals the firm got.

Since IL&FS was promoted by Central Bank of India, HDFC and UTI, and its shareholders later included LIC and SBI—apart from Orix of Japan and Abu Dhabi Investment Authority—this also gave the private firm a quasi-government appearance.

Indeed, given so many deals were such money-spinners, it is difficult to understand how IL&FS is defaulting on its loan repayments. That is why, as this newspaper has argued, an SFIO probe and forensics of IL&FS's accounts—especially those of its subsidiaries—need to be carried out; and, for now, bank accounts and other assets of key personnel need to be frozen till a probe clears them of charges of wrongdoing.

IL&FS financials, consolidated					(₹ mn)
	2014	2015	2016	2017	2018
Operating profit	50,874	56,859	68,545	83,394	72,673
Interest	39,707	45,175	54,979	65,157	79,228
PBDT	11,167	11,684	13,565	18,237	-6,555
Depreciation	3,721	4,640	8,357	12,060	14,537
PBT	7,466	7,044	5,208	6,177	-21,092
Consolidated debt	4,86,713	6,31,140	7,03,744	8,00,177	9,10,913
Interest (% of Ebitda)	78%	79%	80%	78%	109%
Debt to Ebitda	9.57	11.10	10.27	9.60	12.53

Source: Company data, Nomura Research

In the case of IL&FS-promoted Noida Toll Bridge Company Limited (NTBCL), for instance, the way the deal was structured ensured the project that was to cost Rs 408 crore in the early 2000s saw its costs escalate to Rs 5,000 crore a couple of years ago. Like so many IL&FS firms, NTBCL had a former bureaucrat as a chairman.

While many think even an assured return of 16% on equity is too much, NTBCL was assured a 20% return, on the entire project cost—since NTBCL never borrowed money at 20%, this means it earned on even the funds it borrowed. And when the loans were renegotiated down to around 10%—this took its returns up to 43% from a high enough 29%!—the lower costs were not passed on (goo.gl/eD6aWu).

IL&FS not only conceptualised the project, it was also the sponsor and then constructed it; in other words, there was no independent check on costs which should have been a standard clause in any project. Most projects are structured so that there is an incentive to perform; in this

case, if there was a shortfall in revenues—from tolls—this got added to the costs! That’s how the project costs rose 12 times and the original concession got extended from 30 years to 70—the latter was an estimate made by the company in its AIM-listing document in 2006. By the time the project was finally cancelled by the Allahabad High Court in 2016 after it found the toll collected had more than covered NTBCL’s costs and profits, this had risen to 100 years.

In the case of a road project in Rajasthan, an IL&FS subsidiary and the Rajasthan government contributed Rs 25 crore each as equity—this made them equal partners—but since the `1,500 crore project needed more equity, the state put in Rs 240 crore of zero-interest subordinate debt (this is considered equity) while IL&FS got paid interest on its Rs 110 crore subordinate debt. In addition, it got a 4% project fee (once again, it was a project sponsor as well as the executor) and a 1% fee for arranging the loan.

In the case of the Tamil Nadu Road Development Company’s (TNRDC) East Coast Road, both IL&FS and the Tamil Nadu government contributed Rs 5 crore each to become equal partners. IL&FS then gave Rs 10 crore of subordinate debt which gave it a 15% return and Rs 41 crore on which it got a 15.5% return; the state gave the project an interest-free grant of Rs 34 crore. According to a book by TNRDC staffers, while the state contributed Rs 44 crore, it got Rs 2 lakh back in the first seven years of the project; IL&FS contributed Rs 69.6 crore and got Rs 91.3 crore back (goo.gl/xkEV35). TNRDC also got a 4% management fee on the project.

Indeed, it was to remove this conflict that, after giving IL&FS 41% of the equity of Delhi Mumbai Industrial Corridor Development Corporation (DMICDC) —and 10% to IDFC—the Centre asked IL&FS to exit. Under the original plan, DMICDC—set up to develop 24 industrial cities over 5,500 sq km—was meant to be a consultant, to suggest ways to take the project forward. As it happened, it ended up becoming an early-stage developer to set up power plants, roads, etc, and that is when the IL&FS equity in DMICDC was questioned. So, when DMICDC earned profits from selling the land around the development, who was to keep the money; and how could routing concessional Japanese loans—guaranteed by the Centre—to a private firm be justified? Worse, while the IL&FS-controlled DMICDC would bid out city projects, nothing prevented IL&FS’s subsidiaries from bidding for these.

Given the kind of returns IL&FS earned from several projects, it would be important to understand how it ended up with such poor financials. Also, though there has been a big hue and cry over rising NPAs and defaulter promoters, as a single entity, IL&FS is bigger than

many of these defaulters, and so needs to be thoroughly probed. Given its quasi-government image and the number of powerful bureaucrats who have been on its payroll at one point or another, it is important to ensure this doesn't impede the investigation.

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