

Benchmarks >

Nifty CLOSED
11,189.20 -95.10



NSE Gainer-Large Cap >

Kansai Nerolac
429.70 25.65



Precious Metal >

Gold (MCX) (Rs/10g.)
34,716.00 -57.00



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Market Watch

MFs seek Sebi advice on inking inter-creditor pact

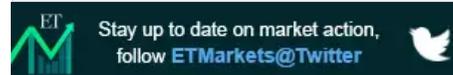
BY SUGATA GHOSH, ET BUREAU | UPDATED: JUL 29, 2019, 08.58 AM IST

Post a Comment

MUMBAI: Mutual funds have asked Sebi whether they should join banks and other financial institutions in throwing a lifeline to distressed borrowers like DHFL, the troubled housing finance company that has fuelled the crisis in Indian shadow banking.

Sebi's stand on the matter is significant as MFs have bankrolled [India Inc](#) in a big way and their participation will be required to restructure loans and give many debt-laden firms a second chance. "MFs are part of the same system and same financial market. So, we are seeking Sebi's guidance for being signatories to intercreditor agreement (ICA) drawn up by banks and nonbanking finance companies. In this context, we are citing the example of DHFL," a senior official of a large asset management company told ET.

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Fundamental Differences

Fund houses have fundamental differences with banks on the draft resolution for DHFL with the latter favouring unsecured creditors over secured lenders. But the conversation with the market regulator goes beyond the DHFL matter and aims at laying the ground rules for fund houses to be part of future ICAs.

"Mutual funds require Sebi's direction on whether they should offer 'standstill' arrangement with a borrower, elongate the maturity of bonds and debentures (as banks do for loans), or allow the conversion of a slice of the debt into equity," said the head of another fund house.

The ICA is guided by the Reserve Bank of India framework with banks taking the lead to draft it. Though technically MFs are not barred from signing such resolution agreements, there is no clarity whether the market regulator would allow MFs to agree to the various terms of an ICA. Thus, the role and position of MFs which are lenders to a company whose debts are restructured is unclear.

"Alternatively, even if MFs do not join ICA, the regulators should consider a carve-out for MFs. Perhaps, the stressed assets can be kept in a segregated account to nurture it back. The funds have shared their inputs with the industry body AMFI, spelt out the pros and cons of signing ICA, and have approved the letter that is expected to have reached Sebi," said a senior industry person.

The resolution plan under an ICA is drawn within 30 days after the committee is formed and implemented over the next 180 days. Sebi, sections in the industry feel, should discuss the subject with RBI so that MFs can play a meaningful role in ICA.

MFs' decision to reach out to Sebi is triggered by DHFL in which about a dozen funds have a total exposure of Rs 4,800 crore, down from Rs 22,000 crore in September 2018. Most fund houses are put off by the banks' decision — which in all likelihood is directed by New Delhi — to pay off unsecured retail investors in full while forcing secured creditors (like MFs) to take a huge haircut. Though MFs have substantially written down their existing exposure to DHFL, they are not ready to accept the terms proposed by the banks.

Mutual funds have turned particularly cautious after its standstill pact with [Essel group](#) came under the scanner.

In their meetings with banks and [SBI Capital Markets](#) — advisor to the proposed restructuring — MFs have made it clear that any restructuring plan should stick to basic commercial and legal principles which say that maximum losses should be borne by equity holders, followed by perpetual and tier-2 bond holders, unsecured lenders and finally secured lenders. Mutual funds, sources said, will explore legal options if they get a raw deal. The funds also believe that banks are not putting enough pressure on DHFL promoters to bring in equity.

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Reaching Out

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Banks have decided to pay off unsecured retail investors in full while forcing secured creditors (like MFs) to take a huge haircut

