

The Unwinding Of IL&FS: One Year On

Advait Rao Palepu
@advaitrao1

Sep 01 2019, 4:59 PM

Sep 02 2019, 9:47 AM

The collapse of the once AAA-rated Infrastructure Leasing & Financial Services in September last year continues to haunt the Indian financial system a year later. Recovery of dues from IL&FS' over 300 subsidiaries remains slow and risk aversion sparked by its collapse lingers on.

On a consolidated basis, the IL&FS Group had Rs 94,216 crore worth of debt outstanding as of Oct. 31, 2018.

Status Of Operating Entities

The new board of IL&FS, headed by veteran banker Uday Kotak, remains engaged in an excruciatingly slow process of unwinding assets to repay dues. The new board had identified 302 subsidiaries, associate companies, joint ventures and other entities related to the IL&FS Group. Of these, 169 firms are incorporated within India and 133 are located abroad.

Over the course of the past one year, 158 companies have been classified based on their debt repayment ability and 8 are in the process of winding-up or liquidation, showed the fifth progress [report](#) filed by the IL&FS board before National Company Law Tribunal on Aug. 14, 2019.

The companies have been classified into three categories—Green (units that service debt completely from their cashflows), Amber (units that service debt partially) and Red (units that cannot service debt).

Only 12.4 percent of the total debt classified falls into 'Green' category, where creditors continue to receive payments, shows the progress report.

Progress In Asset Monetisation

Right from the start, the new board hoped to monetise operational assets of IL&FS as a way to generate funds. Progress, though, has been slow.

Orix Corporation of Japan [has agreed](#) to purchase seven wind-power projects from IL&FS Wind Energy Ltd. The deal will see Orix taking over the company's entire Rs 3,700 crore in debt, according to a statement by the company.

Further, as of Aug. 30, 14 binding bids [were received](#) for 10 out of 21 road assets, that account for over Rs 17,700 crore of debt.

According to a company spokesperson, the sale of these two sets of assets would address almost a quarter of IL&FS' debt.

Asset sales across three other business verticals including investment management, roads, thermal power, maritime infrastructure and education are presently on-going.

The board has also embarked on several cost-cutting measures by leasing out existing office spaces and reducing the size of the workforce. It has identified 30 properties for sale and sold 23 out of 30 luxury cars owned by the groups' entities, realising close to Rs 3 crore.

 (Source: Fifth Progress and Way Forward Report, Aug. 14)

(Source: Fifth Progress and Way Forward Report, Aug. 14)



(Source: Company Presentation on April 3)

(Source: Company Presentation on April 3)

The board has also managed to revive some road projects within IL&FS Transportation Networks Ltd. This includes projects across Assam and Bihar. Revised term sheets have been invited for large expressway projects, such as the Moradabad-Bareilly Expressway, Jharkhand Road Projects and the Western Gujarat Expressway.



(Source: Fifth Progress and Way Forward Report, Aug. 14)

(Source: Fifth Progress and Way Forward Report, Aug. 14)

Investigation Continues

While the new board tries to unravel the complex web of IL&FS entities, investigators are working to detect wrongdoing that may have led to [the IL&FS defaults](#).

Agencies ranging from the Serious Fraud Investigation Office to the Enforcement Directorate [have been investigating](#) the matter. At least four senior officials of the

IL&FS Group have been arrested and a chargesheet has been filed against chairman [Ravi Parthasarthy](#).

Auditors of the IL&FS Group like EY India, KPMG and Deloitte Haskins and Sells have also come under the scanner and are [facing a possible ban](#).

 (Source: Fifth Progress and Way Forward Report, Aug. 14)

(Source: Fifth Progress and Way Forward Report, Aug. 14)

On Jan. 28 this year, the IL&FS board appointed Grant Thornton India LLP to conduct a forensic audit across the group and review all high-value transactions undertaken between April 2013 and September 2018.

The report submitted **flagged off** several issues, including the conduct of ratings agencies. As a result, ICRA Ltd. **terminated** the employment of its chief executive Naresh Takkar. CARE Ratings **also put** its chief executive Rajesh Mokashi on mandated leave, pending an investigation.



The Unwinding Of IL&FS: One Year On

The Contagion

The fallout of a default by once AAA-rated IL&FS has been felt across the financial system.

Mutual funds, who had significantly stepped up credit to non-bank lenders, have pulled back. The reliability of high credit ratings is being questioned. The compression in credit spreads, which took place between 2016 and early 2018, has been reversed.

Interest rates have declined due to a 110 basis point cut in repo rates by the Reserve Bank of India and surplus liquidity conditions. However, the credit spreads charged by investors over and above government bond yields have remained wide, signally the continued risk-aversion even a year after the IL&FS default.

The Unwinding Of IL&FS: One Year On

BloombergQuint

Stay Updated With [Business News](#) On BloombergQuint

More On This Topic





Bajaj Group Creates Most Wealth For Investors Amid Market Turmoil

August 26 2019, 8:30 AM



SEBI Approves Tighter Norms For Full Disclosure On Loan Defaults With Rating Agencies

August 21 2019, 5:45 PM



IL&FS Says It Is On Course To Clear Rs 20,000 Crore Debt

July 24 2019, 10:19 PM



RBI's Financial Stability Reports Never Mentioned Possible IL&FS Crisis, Says Arvind Subramanian

July 13 2019, 10:55 AM

View All

Powered by crisp