Revamp plan for IL&FS

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Why in news?

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The government recently stepped in to take control of crisis-ridden Infrastructure Leasing & Financial Services Ltd (IL&FS) by reconstituting the board of the firm.

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Why it was done?

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- IL&FS Financial Services had defaulted on bank loans, including interest of Rs 284.5 crore to five banks.
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- The company also said it defaulted on repayments of Rs 103.53 crore of term deposit and Rs 52.43 crore of short term deposit.
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- Over Rs 5,700-crore worth of debt is due for repayment over the next one year.
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- It also did not make any concrete announcement about the fund infusion plan before shareholders at its annual general meeting recently.
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- Hence the government moved NCLT and the tribunal approved the government’s proposal to bring in a new six-member board to run the affairs at IL&FS.
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What are the tasks before the board?

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- It was said to be an attempt to restore the confidence of financial markets in the credibility and solvency of the infrastructure financing and development group.
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- This would require a combination of measures including asset sales, restructuring of liabilities and fresh infusion of funds.
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- The NCLT bench has told the new board members to unanimously elect a chairman from among themselves and to submit a report on its findings and a road-map for the debt-laden company.
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- The new board will review the operations and funding plan of the IL&FS group and work out a restructuring proposal.
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- It is also likely to revamp the boards of subsidiaries and associate companies.
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- The board should commission a forensic audit on IL&FS' books to arrive at the true liquidation value of its assets, seek moratoriums on its short-term dues and arrange for liquidity until a resolution mechanism can be thrashed out.
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- It should also ensure that the firm's assets are liquidated in an orderly manner, so that it doesn't implode on the financial system.
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- The Centre and the RBI, on its part, should contain the systemic fallout of IL&FS defaults on the bond markets, by opening a special liquidity window for NBFCs or mutual funds.
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What is the task ahead?

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- IL&FS and its subsidiaries need access to longer-term funds to refinance current liabilities and meet future fund requirements.
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- Selling current investments, divesting few projects, ensuring line of credit from existing shareholders would all be a more stable source.
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- Also, there is a need to re-examine the **IL&FS business model** itself of being a financier and a developer/operator of infrastructure projects.
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- An option could be to separate the financing and infrastructure business into

two separate legal entities.
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- It will also mean that investors will have to contend either with the project risk or the financing risk and not both.
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- This will also make it easy to find investors, who specialize either on the infrastructure or financing front.
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- Hence, the task is not only to tide over the current crisis, but also ensure that the IL&FS group turns into a self-sustaining enterprise.
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What are the concerns?

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- Though IL&FS may be deemed ‘systemically important’ on paper, it as an entity which is not listed and doesn’t accept public deposits.
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- Hence, it would be hard to justify using taxpayer money to bail out this shadow bank.
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- The role of rating agencies merits sharper regulatory scrutiny, given that stress was evident from IL&FS’ financials for the last three years.
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- They assign it high investment grade ratings until confronted with defaults.
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- Hence, SEBI must consider stringent penal measures, such as fines or license revocation for rating agencies that repeatedly fail in their fiduciary duties to investors.
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Source: Business Line, Livemint

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