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Making headway

Asset monetisation is the best way forward on IL&FS, but it is likely to be a long-drawn process

Seven months after the first IL&FS entity defaulted on its dues and exposed major fault-lines in the functioning of this systemically important NBFC, the resolution process for IL&FS finally seems to be making some headway. This Monday, IL&FS received the first set of bids from buyers interested in the assets it sought to monetise as part of its resolution process. IL&FS' government-appointed Board, after seeking an initial deadline extension, has also been quick to push forward with efforts to sort out this hydra-headed entity. So far, the Board has used forensic investigations to dissect IL&FS into its 348 constituent entities, analysed their individual solvency positions, identified some saleable assets and homed in on the resolution process under the IBC (Insolvency and Bankruptcy Code) as the best way to take its mandate forward.

It is good to see that the Board, which originally mooted the idea of selling off IL&FS on an as-is-where-is basis to a 'strong investor' after a capital infusion, has since discarded this plan in favour of piecemeal asset monetisation. A group-level stake sale would have been a quick-fix solution to the crisis, but it would have involved a tax-payer funded infusion and forced large haircuts on IL&FS stakeholders — as the deal could have only been a slump sale. In contrast, the individual asset sales so far have drawn good buyer interest. The five business verticals that IL&FS has put on the block — securities, renewables, road and other assets, education and alternative investments — have attracted between 11 and 32 bidders each. Stakeholders must note though, that these are among the more attractive assets in the IL&FS fold and that monetising some of the residual assets could be a long-drawn affair; those that fail to draw bids may need to be liquidated. The incumbent Board will also have to factor in possible legal fallouts from the recent defaults by IL&FS entities on domestic and foreign debt, and ongoing regulatory investigations into its earlier management.

Overall, despite signs of progress, thrashing out a final resolution plan for IL&FS is likely to be a far more complex and time-consuming affair than for the large corporates lined up before the NCLT. Given that a quick resolution is unlikely, there seems to be little point in allowing the many institutions that hold IL&FS exposures in their portfolios to hold off public disclosures on their holdings, or to delay their recognition of the holding as a non-performing asset. While the mutual fund holdings in IL&FS have been closely scrutinised and recognised, thanks to their monthly portfolio disclosures and mark-to-market accounting, exposure to the beleaguered firm in the portfolios of pension funds, insurers, EPFO and private trusts managing provident fund money and even some banks remain the subject of speculation. In the interests of transparency, the NCLAT must also perhaps rethink its view that such institutions must seek its approval before classifying their IL&FS exposures as non-performing assets.