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IL&FS crisis after 8 years: How India's biggest default reshaped regulation

With former finance secretary M Nagaraju taking charge at IL&FS, its resolution enters another phase, with recoveries slated to exceed commitments, even as the crisis has influenced insolvency reforms

Eight years ago, the spectacular unspooling of Infrastructure Leasing & Financial

Services (IL&FS) seemed like a Lehman Brothers-like moment in India's financial landscape, as its collapse turned off the liquidity spigot for numerous non-banking financial companies (NBFCs), even as the contagion threatened to spread to the wider financial markets.

Last week, it quietly appointed former Finance Secretary M Nagaraju as chairman and managing director (CMD) for a term of two years. However, the road ahead will be a rough one for Nagaraju: he will have to deal with 62 entities from the IL&FS stable for either closure or seek approvals for sale to bidders.

So far, the IL&FS rescue has been one of the smoothest bankruptcy processes India has seen so far, leading officials to believe that the eventual redemptions to lenders could be more than the commitments stated in successive Court depositions.

“We expect to pay back at least 10 per cent more than the Rs 61,000 crore we have committed so far,” said a senior official who declined to be named. That amount accounts for 61.38 per cent of the total debt owed, while the sum cleared so far includes Rs 6,145 crore for the marquee Chenani Nashri Tunnel project in Jammu and Kashmir, renamed as the Dr Syama Prasad Mookerjee Tunnel.

That is a far cry from October 4, 2018, when the new board appointed by the Ministry of Corporate Affairs held a press conference to outline their plan for the company, which had just reported India's biggest corporate default.

Since then, the IL&FS' resolution process has also led to several key changes in the legal environment for the corporate sector, with the passage of new laws, new regulatory bodies and, most importantly, the confidence to test the bankruptcy waters.

A key element of the company's recovery has been the higher realisation from distressed assets. In FY22, the value realised was just Rs 20,968 crore through quick monetisation routes like transfer to InvITs and Non Fund Based releases, such as cancellation of bank guarantees or letters of credits. Now, the nature of sales is realising more value. Until July 2026, the debtor has repaid Rs 16,013 crore from units that have been operating well. As per court records up to July 2026, successive boards have paid Rs 50,387 crore out of the total liability of Rs 99,377 crore.

The picture was significantly gloomier in October 2018. A progress report by the new, seven-member Board was grim about the prospects. "IL&FS Group is not inconsequential, but critical to the financial stability as its share in the total exposure of the banks to the NBFC sector is about 16 percent," it said, warning that "The cascading impact of the default by the IL&FS Group on the financial sector would be... if not addressed in an orderly manner, catastrophic for the financial stability".

New Institutions and Procedures:

One of the first challenges the new Board, headed by Uday Kotak as the chairman, faced was that there was no provision in the new Indian Bankruptcy Code (IBC) for a group resolution process. The law itself had been passed just two years earlier in 2016. High-profile cases, nudged by the Reserve Bank of India (RBI), had begun to spring up, but group insolvency had not yet been envisaged.

IL&FS, thus, presented a first-of-its-kind crisis of a group going bust. As per court records, there were 302 companies with the IL&FS flag of which 169 entities were domestic, while the rest were offshore. “The operations of the Group were conducted through a complex maze of various direct and indirect holding companies, subsidiaries, associate companies as well as unincorporated entities, further complicated by a multi-layered structure,” court papers note as part of depositions. At the time, there were no modalities to handle such a case.

The newly-set up Insolvency and Bankruptcy Board of India (IBBI) raced to form an 11-member committee, chaired by former Securities and Exchange Board of India (Sebi) chief U K Sinha to define the framework for dealing with a group insolvency. It was only after the Sinha committee gave its report in September 2019 that the IL&FS case could be taken up.

The recommendations covered all the IL&FS contingencies. It said, for instance, that the definition of corporate group should include holding, subsidiary, and associate companies. The adjudicating authority, i.e. the courts, could include other groups not covered by the definition. Critically, the Sinha committee asked for the development of a procedural coordination mechanism in the first phase.

The first set of applications by the new Board of IL&FS came to the National Company Law Tribunal (NCLT) in 2020. Over the past six years, there have been 12 such applications, including the latest one filed as recently as July 2026.

The IL&FS crisis also led to the creation of the long-delayed National Financial Regulatory Authority (NFRA). The regulatory body to police corporate auditors was envisaged in the Companies Act, of 2013 but the provision had been languishing. The ministry of corporate affairs issued an order to set up the NFRA the same day that it moved the NCLT to terminate the board of IL&FS and set up a new seven member board.

Other changes were equally consequential. The collapse set off a debate on whether companies hide their financial woes because of the spectre of criminal charges. IL&FS for instance, had been debating internally the risks of over-leverage much before its first default by IL&FS Financial Services (IFIN) on its commercial paper repayments and inter-corporate deposits that spooked the markets, leading to short term lenders pulling back.

The government subsequently conceded that the threat of criminal action for corporate crimes had become counter-productive. The amendment to the Companies Act in 2020 was salutary as it, for the first time, removed the threat of imprisonment for offences as simple as buy-back of shares.

It also reduced the amount of fine payable for petty offences like the failure to file annual returns with the Registrar of Companies from Rs 500,000 to Rs 200,000.

The wider definition of bankruptcy, mixture of smart regulations through bodies like NFRA, and a recognition that corporate misdemeanours need not immediately translate to jail time are some of the key benefits to have emerged from the IL&FS crisis.