

# IL&FS resolution takes a Covid-19 knock

With real estate valuations falling and other deals coming unstuck, the current management's improved target faces significant challenges

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The Covid crisis could not have come at a worse time for the Infrastructure Leasing and Financial Services (IL&FS) board that is in the process of resolving debt of ₹99,000 crore. On March 12, 2020, the Uday Kotak-led board, which will complete two years in September-end, finally received the National Company Law Appellate Tribunal's (NCLAT's) approval for the resolution and distribution framework for the IL&FS Group. The proposal, incidentally, was submitted in January 2019. However, India went into the lockdown mode just 12 days after the nod from NCLAT.

"This affected our ability to conclude transactions and impacted timelines, resulting in some monetisation delays in road projects, adverse impact on the sale of our real estate assets portfolio and extended judicial and regulatory approval process," said CS Rajan, managing director, IL&FS (see interview).

Since then, the Pune-Sholapur road special purpose vehicle's (SPV) highest bidder — an Italian firm — has decided to withdraw from the process. An alternative plan — including making it a part of the proposed Infrastructure Investment Trust, or InvIT, for the IL&FS Group — has been put in action.

Another key area where Covid-19 has had a considerable impact is on the sale process for IL&FS Group's real estate portfolio, affecting timelines and value realisation. Some believe that the value of the assets can erode by 25 per cent in the post-Covid era. In addition, it has



also had an impact on the functioning of courts, which has resulted in prolonging certain timelines.

Commenting on the NCLAT approval, J N Gupta, managing director, SES, a proxy advisory firm, said: "Our legal system needs to understand that allowing resolution processes to linger for long periods, especially in case of financial issues, adversely impacts many stakeholders, and asset values get depreciated. For example, the adjusted gross revenue decision for telecom companies came after over a

decade and put tremendous financial pressure on all the companies, with one almost on the verge of bankruptcy."

It is not that things haven't moved at all. While the GIFT City resolution (₹1,250 crore) took place during the lockdown, the board has addressed debt of ₹17,640 crore or 18 per cent of the total outstanding debt till June 2020. These include the sale of 11 entities worth around ₹5,000 crore, recovery of ₹1,360 crore and reduction of entities from 347 to 276.

Going ahead, the board has ambitious plans. For example, it plans to resolve (cumulative) debt by ₹50,590 crore by March 2021, and reduce the number of entities to 60. And an additional ₹6,650 crore is expected to be resolved beyond March 2021. This would mean that around 57 per cent of the overall debt will be resolved — higher than the average 47 per cent that has been achieved under the Insolvency and Bankruptcy Code, till now.

Said Sudip Bandyopadhyay, chairman, Inditrade JRG Group and an investor in many fintech companies: "Given that the crisis was very serious and the new management is non-executive, it becomes much more difficult to sell assets and take quick actions. So, from that perspective, the IL&FS management has done a good job in tough circumstances. Yes, some of the new targets seem a little ambitious, but except for meeting the deadlines strictly, they are doable."

The key to all this will be the proposed InvIT. This will be done in two phases — phase one will include creating a pool of road assets that did not get bids or sub-optimal value bids, and the next phase will comprise state joint venture road assets or road assets in litigation or in which bidders withdrew the offer.

The InvIT will house over ₹11,000 crore of road assets, and sources said more assets will be added over time. This would mean over one-third of the resolution process is dependent on its success. The other important chunk is expected to come from asset sale of over ₹12,650 crore till March 2021.

In short, the IL&FS management has set stiff targets for itself at a time when the full impact of Covid-19 may not have played out completely. The success of the resolution process will also indicate the overall investment mood in the economy.