

THE MORNING AFTER

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On Monday, the government stepped in and took control of the infrastructure conglomerate, Infrastructure Leasing & Financial Services or IL&FS, sacking the board and appointing a new one. The rare intervention by the government in a company in the form of superseding its board in which it is not a direct stakeholder has been justified in the interests of financial stability and the adverse impact of the collapse of such an institution on the capital markets. The new board with respectable names from the financial sector, such as Uday Kotak, former and serving government officials and a regulatory chief will now have to finalise a restructuring plan or a roadmap for the debt laden group and ensure an orderly winding down.

Parallels have been drawn between the government intervention in the case of IL&FS and that of Satyam Computer Services in 2009 after the promoter confessed to having fudged the accounts. But in IL&FS, there is a mountain to climb. The group's liabilities top Rs 91,000 crore — much higher than the burden in Satyam's case and spread over more than 160 group companies. Globally, there have been models like this one where an institution acts as an infrastructure developer and as financier too, but it is fraught with risk given the high leverage. Those risks are amplified in India because of frequent policy changes and the constraints in pricing in the infrastructure sector and the failure to enforce contracts.

All that is hardly going to resonate with debt mutual funds who have invested over Rs 3,000 crore having bought into the company's offerings on the strength of superior credit ratings, besides other institutional investors. In no way does this justify a public bail-out of a group with institutional shareholders and which, for the large part, had a so-called professional management and a board with prominent names. Recourse to public funds should be non-negotiable. So should be the settling of other claims of the debtors. As the experience of the bifurcation of the good and bad assets of India's first mutual fund UTI shows, it should be possible to realise value in some of the performing assets of the group or to attract investors to take over some liabilities. The government has also ordered a probe by the Serious Fraud Investigation Office. For the new board and government, the job should not end with a resolution plan. It should go hand in hand with a forensic audit and fixing of accountability. Even as the government cleans up the mess, it will have to think hard on how it will fill the void in financing infrastructure.

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