ILFS

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Problem Statement and a primer on ILFS

This study is an attempt at understanding the projects of the group companies of IL & FS that went sour, the amount of money lost in different projects and the socio-political or financial reasons that made their debt unserviceable.

In doing so, since there are around 302 odd companies intertwined in a complex web of layers, the examination of all of whom is beyond our capacity, we'll be looking at the assets and liabilities of some major projects that constituted a considerable chunk of the defaulted debt.

IL & FS defaulted on its fund based obligations of Rs. 94,216 Cr. and non-fund based obligations of Rs. 99,354 Cr. and of this, the 4 holding companies (ILFS, IFIN, IEDCL and ITNL) have an outstanding fund based debt of Rs. 48,470 Cr. [1]

IL & FS is a systematically important non deposit accepting NBFC, that holds a 100% stake in IFIN i.e. IL & FS Financial Services Limited which is again an NBFC that specializes in infrastructure financing transactions, debt syndication, corporate advisory and lending [2] This 100% subsidiary of IL & FS in turn has a stake in a number of subsidiaries or JVs that executed its projects. These subsidiaries (or JVs) of IFIN are registered in places from London to Mumbai to Hong Kong and the structure of holding makes consolidated accounting for the IL & FS group a daunting task. The SFIO report has made it pretty clear that though all these firms were independent on paper, the people at the helm of IL & FS were the ones that eventually called the shots on them, and these subsidiaries rather than acting as independent firms, operated merely like the departments of IL & FS. [10]

In India, commercial banks usually do not lend for infrastructure projects for a number of reasons, viz. they raise money by issuing deposits that have an average maturity of less than 3 years (The Wire [3]), whereas the projects in infrastructure run into decades before they start making money and also assume a number of risks in terms of regulatory clearances, land acquisitions, price

volatilities, environmental clearances etc. which more often than not takes the completion time for these projects well beyond that initially planned.

Banks are also subject to the RBI guidelines which restrict them to lend more than a specific percentage of their credit to a specific company or a single sector (E.g. Banks have to lend almost 40% of their loans to the priority sector)

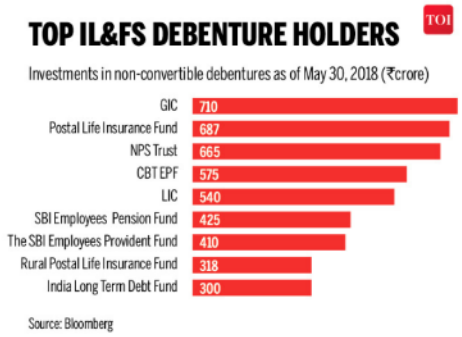
This is what led to the creation of IL & FS, an NBFC to finance infrastructure projects in energy, roads, ports etc. Being an NBFC, it is not restricted by the RBI regulations on lending and can thereby lend the amount it deems fit to any sector, provided it complies with applicable regulations. ILFS, from an NBFC envisioned to finance Infrastructure projects in 1987, graduated to become a holding company with majority stakes in firms that executed these projects.

BREAKUP OF BORROWINGS

IL&FS' Standalone Outstanding Borrowings As On May 30, 2018

Debt	Amount (₹Crore)
Debentures	10,198.0
Term Loans	2,592.5
Commercial Paper	2,007.3
Inter-Corporate Deposits	1,450.3
Covered Warrants	194.3
Loan repayable On Demand	38.3
Sub-Ordinated Debt	25.6

Source: Bloomberg



In doing so, IL & FS managed to raise around Rs. 90,000 Crore. with an equity of a mere Rs. 9.83 Crore [4 Forbes]. The modus operandi employed arranged money raised on debt by ILFS and infused it as equity into its subsidiaries, allowing them to raise more debt. The debt thus raised by the parent reflected as equity in the SPV (or subsidiary) and a debt Ponzi scheme ensued.

Now, that we have some basic understanding of the means through which money was raised and channeled, let us get to the purpose for which it was actually put to use and understand different projects of IL and FS that went under. In doing so, individual projects are looked at and some sense is tried to be made of whatever happened there, and then a critical appraisal examining the common links between them (if any) is made.

New Tirpur Area Development Corporation Limited [6 Madras High Court AIDQUA vs. TN Water Investment]

Post-Independence, the exporters of Tirpur, one of the largest export center in the country of cotton knitwear formed an association namely Tirpur Exporters Association (TEA). In order to aid Tirpur attain its maximum potential, the Government of TN provided necessary infrastructure through its wholly owned subsidiary TN Corporation for Industrial Infrastructure Development Limited (TACID).

The subject project concerned itself with treating water from Cauvery and then providing potable water to the residents of Tirpur. In '94, TACID, TEA, and IL & FS incorporated New Tirpur Area Development Corporation Limited for this purpose (NTADCL). IL & FS invited bids in the US to raise money for this purpose, and Bear Sterns Inc. Co. quoted the lowest rate (unlike the present times when tech startups raise billions of dollars in a single day, getting a fraction of that capital was perhaps a big deal a couple of decades back) for a floating rate note issued by ILFS and guaranteed by USAID, duration 30 years (10 years moratorium, 40 semi-annual payments) The proposal to raise money from the US market was approved by the NTADCL board (surprisingly, either ILFS did not disclose the entire terms and conditions there or the board simply did not do its due diligence) and from then onwards, ILFS started pocketing money under dubious pretexts.

The Gov. of TN, Tirpur Municipality and NTADCL in 2000 entered into a tripartite agreement in which ILFS was permitted to draw water from Cauvery, provided with water treatment and sewage facilities (NTADCL had TACID as one of its founder, itself a TN Gov. subsidiary) and was mandated with the task of providing potable water on commercial basis. (Privatization of water resources). ILFS wanted to infuse more equity into NTADCL and hence approached AIDQUA, a Singapore based firm, which invested through its SPV AIDQUA Holdings (Mauritius) Inc. a sum of Rs. 90 Cr. ILFS now raised around 140 Cr. from the US market which was credited to its escrow account, for NTADCL. Even though the gross disbursement on ILFS' part was 140 Cr., it transferred only 90 Cr., 50 Cr. was charged to NTADCL by ILFS for upfront fee, banking charges and miscellaneous expenses. These charges led to a lot of disputes in the board, especially between

ILFS and AIDQUA Holdings, whose stake lost value even before the money from the US had come to NTADCL. Meanwhile, though the work on the project commenced in 2002, this statement from Justice V Ramasubramanian offers an excellent narration on the state of affairs "*In the meantime, the work on the project of setting up the plant appears to have commenced in November 2002 and eventually, water started flowing (or trickling down) to the common users, both industrial and domestic, in May 2005. What flowed thereafter appears to be only litigation"* [6 Madras High Court]

The court observed that, while the ILFS fleeced the shareholders of NTADCL, the Gov. of TN was forced to infuse capital just to service debts, not a prudent decision socially or economically. In the same year ILFS went to IDBI and asked it to sanction term loan for a project, of waste water treatment, which per it cost Rs. 1163 Cr. [5 money life]

	Rs. crore
Land and site development	14
EPC Contract	783
Preoperative expenses	281
Miscellaneous Fixed Assets	2
Contingency	73
Margin Money for Working Capital	10
TOTAL	**1163**

The project was planned on BOOT basis, and promised investors an unrealistically high 20% IRR. The financing of the project, through a debt to equity ratio of 1.5:1 seemed appropriate, but the shareholding pattern was confounding

EQUITY		Rs. crore
Equity capital	390	
Sub-ordinated debt (quasi equity)		
- IL&FS/Government of TN	40	
- Water Funds/FIs	35	**465**
DEBT		
Rupee term loan		
- FIs/Banks	419	
- IL&FS (WB line of credit)	139	
- IL&FS (USAID line of credit)	90	
Deep discount bonds	50	**698**
TOTAL		**1163**

		Shareholding	
	Shareholder	**Rs. crore**	**%**
Promoters			
1.	Govt. of India	10	2.5
2.	Govt. of Tamil Nadu	10	2.5
3.	Tirupur Exporters' Association	10	2.5
4.	**IL&FS**	**35**	**9.0**
5	EPC Consortium (Mahindra & Mahindra, Bechtel & United Utilities, UK	46	11.9
Sub-total		**111**	**28.4**
Financial Investors			
6	Water Funds	107	27.5
7	FIs and banks	172	44.1
Sub-total		**279**	**71.6**
TOTAL		**290**	**100.0**

ILFS owned a mere 9% stake in a project, that it promised to its investors would deliver a 20% return, something was amiss. This got the lenders sceptic, and they lent the money putting in place several caveats.

A year after, ILFS came back to IDBI with a revised cost, amount reduced to 1050 Cr. The entry of WB into the scene changed the picture, the biddings now could not be doctored, and fearing the loss of contract the project constructers bid lower values. Obviously, no hoots were given to ethics or to the so called corporate culture of ILFS , when exorbiantly high bids were made a year ago, for as Friedman said the job of corporate is solely to clock more profits and increase shareholder value, nothing else matters, least of all the means.

The CEO of the project was a retired bureaucrat who had absolutely no idea as to how the project was to be executed, and 2 decades hence the debt has piled up to Rs. 700 Cr.

The court case on the NCTLAD project meanwhile progressed along the direction of Corporate Debt Restructuring, which was opposed vociferously by AIDQUA since that entailed a conversion of debt by lenders into equity, diluting its stake by half. It also required the TN Gov. to infuse 150 Cr. into the firm to service debts.

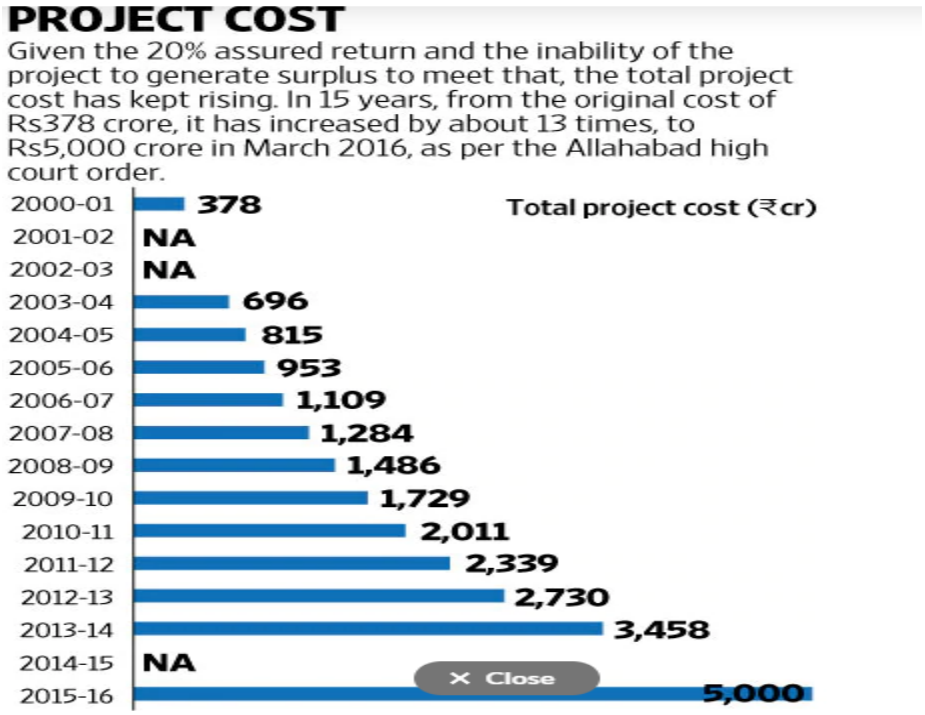
The above epsiode clearly illustrates how some fundamental propositions are at play. The profits in this PPP (if they at all happen) are privatised, losses are borne by the taxpayer, the costs on the taxpayer are not only the ones they loose directly, but also that of litigation, the Indian judicial system which is anyway terribly short of judges and infrastructure is stressed even more by such cases which originate out of decisions taken by corporates purely by the motive of gain without any consideration, pushing an average Indian citizen even further behind in the queue in front of the judicial system. The claims of efficiency with which the private sector operates also doesn't cut ice here, for had that been the case ILFS might have not charged such large amounts of money to NCTLAD or overinvoiced their costs to the bank, again if we delve in this either the blame can be attributed to the then CEO of ILFS or perhaps to the nature of the holding itself which justifies its existence primarily though profits, not projects. The other investors were lured into joining IL FS for the project by promises of extremey high returns, which were unrealistically made by ILFS since it wanted equity to flow into its firm. Some other reasons why this project went under was that there was not much demand for commercial water, a reflection on the purchasing power of the local economy.

Delhi Noida Toll Bridge

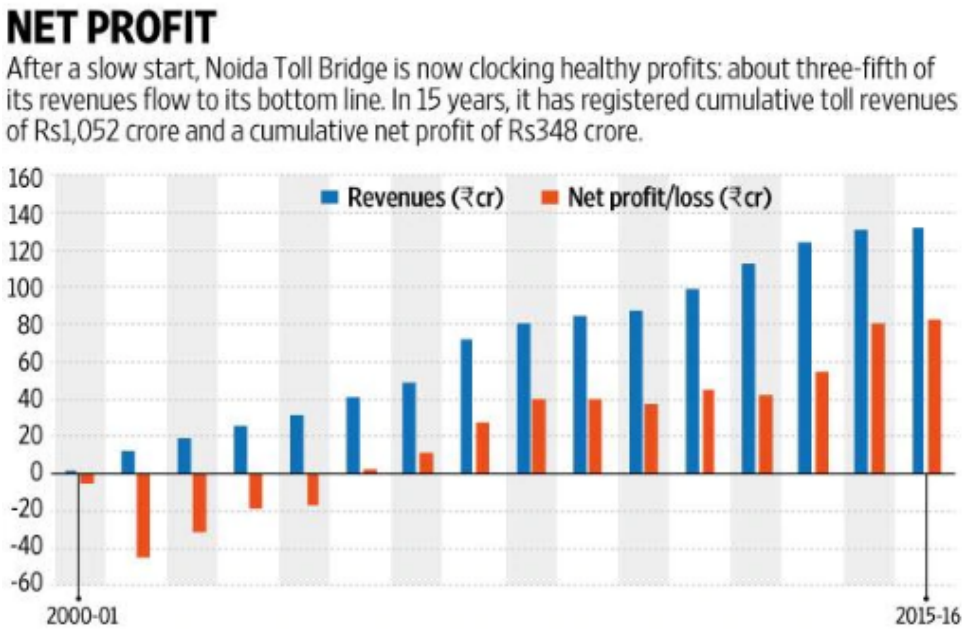
From down south in Tirpur to up North, the story is not much different. The Delhi Noida Toll Bridge constructed by ILFS is a prime example of how PPP was a sellout of public assets to private parties at throwaway prices.

The NCR Planning Board in 1990 carried out a study which underscored a need to construct a bridge across Yamuna to ease traffic between Delhi and Noida, this was a followed by a MoU between the Delhi Administration, UP Govt. and ILFS for implementation of a Toll Bridge on BOOT model. Puzzling, as it might seem, this task requiring extremely heavy engineering and enterprise was handed over to ILFS, the lone bidder and also the one which did not have anything to show as its credentials in undertaking such assignments in the past. The construction was handed over to a company owned by ILFS, (as mentioned earlier, from financing ILFS also started to get into execution) NTBCL (Noida Toll Bridge Company Limited) which had a corporate office in Lucknow

The agreement signed between ILFS, NTBCL and the Noida administration, gave ILFS literally a free hand to fix rates as it deemed fit. ILFS by its own estimate had submitted an EPC cost of Rs. 193 Crore. which ballooned to Rs. 410 Crore. in 5 years, the break up is revealing, the cost of man, machinery and land was 200 Cr. and the management fee was 200 Cr. as well. (Just like what ILFS did in Tirpur, they siphoned a major chunk of the contract proceeds to their account) and this cost was audited by the auditors endorsed by ILFS. As per the terms of the contract, ILFS could collect Toll for 30 years from the bridge and more than that indefinitely if it did not get sufficient returns. That sufficient threshold was 20% the business model was stupefying, the initial cost was around 400 Cr., the ILFS should thereby receive around 20% or 80 crores in the 1st year, but actually it did rake in only 2 Cr. now they added the shortfall Rs. 78 Cr. as cost to their initial amount, meaning now they'll have to make 20% on (400+78) cr. in the second year and the scheme moved on and on, paving way for the toll to run indefinitely. [7 Firstpost]



This stupefying increase in cost when juxtaposed with increasing profits is bewildering to any lay observer, that afterall is precisely what the terms of the contract meant.



[8 Mint]

The understanding from all this again points out toward how an unfettered race to clock in more profits benefits private players at the expense of lenders and public. Mr. Pradeep Puri, an Ex-IAS proclaimed that the decision of the Allahabad HC to make the DND flyway toll-free would sound the death knell on private investment in infrastructure, he might actually be correct, but the important point is where did the money that they receive go? Most of it ostensibly went to a handful of top management staff and amongst those were Ex-bureaucrats who had retired prematurely to become a part of the newly incorporated company, they obviously would not have joined without a hike on their "paltry" government salaries, the conflict of interest was not just apparent, it was glaringly obvious. Mr. Pradeep Puri, interestingly in his article in Economic Times and the ToI [9] does not talk about any of the escalations in cost or the arrangement that allows NTDCL to mint money in perpetuity, but focuses merely on upholding the terms of contract. In a nation governed by laws, that craves for foreign capital, ofcourse upholding contracts is of utmost imporatance, but then why did the terms of the contract come out to be as such needs a detailed explanation, this again recalls to our mind the free movement of the wall street honchos in and out of the governmental positions of influence and execution.

As regards, the quality of the bridge constructed, we did not come across any complaints as such, so the concerns over awarding the bid to a rookie party were perhaps unwarranted.

GIFT City, Gandhinagar

GIFT city has been envisaged as an oasis and a well-designed urban agglomeration. There are great systems that have been conceptualized. From the perspective of financial services they are providing a lot of tax and fiscal incentives to set up financial services, as well other high tech facilities. This is how the city has been envisaged:

But it presently looks like not far from this:

Gujarat International Finance Tec-City (GIFT), which is a showpiece project of the government of Gujarat, faces a PIL filed by DC Anjaria, Gift City's first independent director and the former

chairman of audit committee. According to the petition, the Rs70,000-crore project has indirectly been gifted away to its private sector partner, Infrastructure Leasing & Financial Services (IL&FS), which has led to massive losses to the government and the people.

According to the PIL, the allegations include: [12]

Sham Land Deals: When Gift City was conceptualized, it was stated that the land will remain with the state government and will be provided to the project only on lease. The GIFT City Company Limited, however, structured it as a 50:50 joint venture between the Gujarat government and IL&FS, with IL&FS enjoying full management rights, which in other words, made it a private project with the state as a source of funding and a non-controlling partner. One rupee per acre was the price that was charged for nearly 880 acres of land for this project.

The land was to remain in the government's name but has been fully transferred to the company's name and in this way, IL&FS gets control over this huge land, by a mere investment of Rs2.5 crore as its share of the 50% equity. It should be noted that the value of the land is at least Rs2 crore/acre, which carries a value of Rs440 crore being transferred to the private partner.

Gold-plated Contract: While the land is provided by the state government, the private partner: IL&FS does not either put its contribution through management expertise, which on the other hand, is paid separately, says the petition. A fee of Rs20 lakh per month excluding taxes and out-of-pocket expenses, was collected separately by IL&FS. [13]

To calculate the money involved, IL&FS got back its share of investment as management fees at the end of first year, apart from the amount of Rs400 crore paid to the consultants hired by IL&FS as project consultancy fees, over the years. In addition, the government has agreed to pay 1% as success fees of the full landed cost of the project on completion. Given that this is billed as a Rs70,000 crore project, IL&FS stands to earn Rs700 crore from this fee alone, on completion.

Favoured Associates: The petitioner alleges that a contract for 'architectural and engineering services' for the project was signed by IL&FS with Fairwood Consultants, before incorporation of the GIFT Company, on the very day that an MOU was signed with the government. Later, when a company was formed to implement the project, the board of directors was asked to 'regularise the contract' without even placing the actual contract before the board. There was no tender to select the consultant, although this is clearly a 50:50 PPP.

Things got worse, the firm was paid a heavy fees of Rs400 crore without providing any reasonable services. When the services were asked to be provided or due repaid, there came another shocker

"*It was revealed that the contract included a clause that advances once paid, are not recoverable even if services are not provided, making the contract a route to transfer money to Fairwood Consultants, without even any service obligation. Importantly, the petitioner says, Fairwood Consultants did not have any worthwhile team/expertise and were housed in a small office within IL&FS's premises at the controversial Delhi Noida Toll Company*. "

The petition also makes the following key points:

- No advertisements were issued by the government for the selection of private partner to construct the township project.
- The project should have been undertaken as per the requirements of Gujarat Infrastructure Development Act, 1999, which specifically regulates PPP projects in the state of Gujarat.
- No bids were invited before the contract for management services was awarded under the garb of it being joint venture contract.
- Investment of Gujarat government is routed through Gujarat Urban Development Co Ltd, a company wholly-owned by government of Gujarat, and is otherwise amenable to audit of comptroller and auditor general (CAG). The funds invested in GIFT City have also

been contributed from consolidated fund of the government of Gujarat, which made the GIFT City to be a beneficiary of the consolidated fund of India.

- Owing to Section 15 of CAG's (Duties, Powers and Etc) Act, 1971, even IL&FS is amenable to audit of CAG. [11]
- Recording of the minutes of the board meetings were not properly allowed. In case of the audit committee, the minutes were allegedly altered by the board after Mr Anjaria was removed as the audit committee chairman. These minutes specifically pertain to the meeting where it was resolved to recover funds from Fairwood Consultants and resolution was passed by a majority of the committee members.
- The comments of various directors, including the petitioner, were not recorded by the chairman of the board using his discretion to approve the minutes of board meetings.
- The petition accuses IL&FS of squandering government resources and siphoning off money belonging to GIFT City and the government and causing a loss to the exchequer.

IEISL (Environmental Infrastructure and services limited)

Let's look at one example to have a better idea of how and what went on at the ground level of things, IEISL (Environmental Infrastructure and services limited) and The center for development communication(CDC), a waste management trust that specializes in garbage collection and micro planning waste management in rural and urban areas, set up a joint venture with a 95 % :5 % stake called Kanak Resource MAnagement Limited.

The trust itself has many allegations against it including and not limited to collecting more that its due in the projects it has collected and the delay in its ongoing projects.A fact-finding committee "found gross violation of the terms and conditions and huge misappropriation, raft of shady lending and borrowing operations that expose how IL&FS was moving money around in group companies, to ward off a default for at least two years, before founder-chairman Ravi Parthasarathy stepped down in July 2018.." source:(https://www.moneylife.in/article/how-ilfs-used-a-subsidiary-for-

suspicious-fund-transfers/55731.html), KRML's main occupation in the past few years was to borrow and to repay large sums of money to IL&FS group entities in the form of short-term loans. **We were discussing loans to farmers and how large farmers and businesses use the exact same tactic of showing their accounts as full when applying for a loan (borrowed)and when the time came to repay the large amount of loan taken that money would be transferred for a day and then transferred back as a new loan (smaller loan) to the farmer itself or scapegoat on whose name the account is registered. Same trick, same animals just a larger zoo and a larger audience.**

In this case let us look at the loans taken and repaid(figure below): Large amounts were borrowed and repaid to the tune of 300 Crore but the vicious circle does not end here, while this input output was happening in a closed loop with IL&FS Group entities there were External Large players who were lending to KRML , some because of the large share that IL&FS had in the group that gave them confidence while others were the same players that were lending / had stake in the major IL&FS subsidiaries in a way pumping money into a closed loop from outside to again circulate amongst the smaller players while also increasing the current companies share which will bring in external funding which will also undoubtedly go into the IL&FS Group system again. We should once again question the work done by these lenders (not belonging/ connected to the group for sanctioning such loans)

Annexure- B

Transactions	Name of Entity	As At March 31, 2017	As At March 31, 2016
Interest Expense	IEISL	-	2,519,642
	EDWPCL	184,716	-
	Tierra	2,132,630	-
	IFIN	138,856,686	66,929,004
Interest Income	IREL	-	29,751,507
	IL&FS Maritime	41,820,274	10,777,809
	SCOL	-	3,223,151
	EDWPCL	536,888	-
	ITNL	61,065,753	15,202,740
	Hill County Properties Ltd	31,000,000	7,983,562
Professional fees	ISSL	-	18,920
	IEISL	32,775,000	-
Deputation Cost Paid	IEISL	4,339,973	14,420,340
Loan Taken	IFIN		1,880,000,000
	Tierra	54,000,000	
	DDSIL	50,000,000	
	EDWPCL	12,740,215	
Loan Repaid	IEISL		22,390,000
	Tierra	4,000,000	
	EDWPCL	12,740,215	
	DDSIL	50,000,000	
	IFIN	341,835,824	578,402,492
Short term loan given	Hill County Properties Ltd	-	200,000,000
	IL&FS Maritime	-	270,000,000
	IREL	-	1,130,000,000
	ITNL	-	1,130,000,000
	EDWPCL	6,300,000	
	SCOL	-	230,000,000
Short term loan received back	IREL	-	1,130,000,000
	ITNL	750,000,000	360,000,000
	IL&FS Maritime	70,000,000	-
	EDWPCL	6,300,000	-
	SCOL	-	230,000,000
Lease Rent Paid	IEISL	22,265,751	22,033,647
Office Rent Paid	IEISL	405,332	859,876
Managerial Remuneration	Mr.Vivek Agrawal	-	1,350,500
Salary & PRP (excluding deputation cost)	Mr. Debashish Tripathy	700,000	-
Director Sitting Fees	Sanditta Mal Nagpal	140,000	155,000
	Sant Sujat Soni	95,000	155,000
Office Expenses (up to 30.06.2015)	CDC	-	109,808
Payment for Vehicles (up to 30.06.2015)	CDC	-	1,559,564
Sub Contract Expense (up to 30.06.2015)	VWMPL	-	3,661,535

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To Add to this all as stated at the beginning, IL& FS is a systemically important Non-Deposit accepting Core Investment Company (CIC-ND-SI) registered with RBI, considered a TBFT (too big to fail), To consider a financial institution as TBTF implies that the institution enjoys an implicit sovereign guarantee against its failure. But it cannot be done without inviting some perverse outcomes. Moral hazard[2] is the oft repeated problem associated with TBTF. Creditors to a financial institution, say a bank, may be least interested in monitoring its activities and thus permitting the bank to tread a risky path, when they knew beforehand that the bank is considered to be too big to fail by the government and regulator. These are uninsured large creditors, including holders of debt and equity, who do not enjoy insurance cover under usual deposit insurance mechanism [(Mishkin, 2004) Moosa, I.A (2010) The Myth of Too Big To Fail, Palgrave Macmillan, Hampshire, UK]

The conception of TBTF, as Stern and Feldman (2004) put, gives rise to "a policy environment in which uninsured creditors expect the government to protect them from prospective losses from the failure of a big bank". However, to extend government protection to an insolvent institution is not a cakewalk. On both moral and economic grounds, the action invites criticisms (Moosa, 2010). Even on the premise of 'public interest', morally, it is hard to square with the idea that the rest of the society is paying for the losses of a sinking institution, which is spared from confronting the consequences of its own reckless actions. Advocates of laissez faire would indict the government for weakening market discipline and rewarding inefficiency. For them, failure of any firm must be allowed as it is the very outcome of a free market economy and part of 'creative destruction', an essential aspect of capitalism (Moosa, 2010). If the government finances the bail-out using borrowed money, there is a concern that future generations shall bear the tax burden. If it is done through printing money, the worry is over the resultant hyperinflation (Moosa, 2010)

In the course we delved into wall street and were introduced to how the financial crisis exposed the banks who were subprime lending and how it snowballed into the modern era economic catastrophe, one we had not seen since 1929. These very banks were termed as too big to fail and drawing a few parallels between this particular incident in history (which arguably has changed

the world as we know it, at least on the one that we see/ is projected onto us by the news around us) and our current issue at hand the IL&FS crisis.

The worst part is the ones that are most affected at the end of the one whose money it is (lic & hedge fund- those who are just saving and not even investing) & the investors on the lower end who had entrusted IL&FS with their emergency and contingency money, the ones who don't pull the strings and have no power.

How can one expect the powerless to be courageous when they have a lot to lose, how can they risk anything when everything they put up for risk is something they need the most, while investors who have sack loads of cash to invest on are praised not only for taking on high risk scenarios but also for investing in cash burning options. We see here again the divide growing larger.

What IL&FS has done on its end is the downgrade of debt securities issues by some of the IL&FS group companies. Finally even in this case IL&Fs seems to be on the track of being "rescued" just like the government bailout in the US, a program is enroute to being finalised that takes cues from the emergency economic stabilization act that came into place after the crisis in 2008. The government also started a Troubled Asset Relief program to help soften the fall and brush it all away.

"Modus Operandi

The IL&FS group switched from arranging and structuring infrastructure finance, to being a partner in projects, around 2005. Typically, it leveraged its big public sector shareholding to find acceptance with state governments. It also offered a 50:50 joint venture, where the state got to appoint a non-executive chairman while IL&FS ran the show with its own managing director (MD) and virtually owned the projects.Its flamboyant, high-spending ways were used to build deep contacts with bureaucrats in all state governments. It had dozens of IAS officers on its payroll and also doled out favours like houses/apartments for politically connected persons (PCPs), facilitating admission of their children to Ivy League universities abroad and other benefits.

The bureaucracy enjoyed its lavish spending ways; it didn't matter that the costs were passed on to the project and borne by the public. IL&FS brought project development and fundraising ability to the table, for which it extracted hefty fees, based on the project cost. So, every cost escalation only worked to its benefit."(Source https://www.moneylife.in/author/sucheta-dalal.html)

The take away from this excerpt is not how the deed was carried out but the uncanny resemblance of the broken systems around the world which are in place for a purpose, systems , institutions or organisations at their very core are made up of people, people who have their sense of responsibility to not their just immediate circle of influence but also the general public and in the case as in many other we see a multitude of people be it IAS officers, Politically connected people, the head of stakeholders be it the MD's & CXO, we see a continuous passing the buck. A running away from responsibilities while running towards individual self interests, this was seen in the "Inconvenient truth" where for the overall good of everyone on the plant we need a collective action to be taken but individuals look for the easy way out and never do proactive actions that will inhibit the effect, just running being collecting wealth. IF this aspect is looked at in the issues we will quickly find ourselves looking at the risk management committee which not only had just 1 meeting since 2015, who were in charge of which projects to undertake and how much risk one should take with public money albeit each deal that was done had its own takeaways, we also look at how though this was very much in the public domain and is something credit rating agencies, who's very role is took determine this and give ratings strayed from their responsibilities. The question being does all this come down to an individual's decision and does an individuals decision have any bearing on the system in place. In class we spoke about how the switching off a fan, will reduce our individual footprint but then we notice that this segment and its contribution to the overall footprint itself is negligible and the action lies elsewhere or rather action need to be taken elsewhere, in retrospect when CFC released from the refrigerators were an issue to the ozone layer each individuals choice did matter but then the decision to use different chemicals were again a top management decision. Perhaps more than an individual contribution to the cause but an individual's contribution to change the faulty system that is in place is where energy must be

diverted towards.

What then are our alternatives how can this pre prevented in the future and what exactly can be done differently - for this if we look at history we see large firm like Enron being involved and large sums of money being squandered, not exactly what is happening here but a strong corporate auditing body that is accountable while making so that the errors on the lenders end, the credit rating agencies end and this never ending loop of borrowing and repaying can be put under the microscope and looked at to bring some balance in this sqwed lending of money. A few acts in the US that can act as benchmarks for the same are the sarbanes oxley act that tell us how public corporations are to comply with the law and how there should be transparency amongst the boards , management and public accounting firms. The law can be looked in the light of the GAIL bailout and how firms like LIC & SBI , state owned have investments in risky projects which should have a more thorough due diligence but which does not happen now.

However, basing causes of failure on the organization would be myopic and we need to look at the problems elsewhere. A classic combination of Infrastructure and Financial services, with its wings, spread wide open in the infrastructure domain, ILFS faced borrowing issues when the banks reduced their exposure to infrastructure as a sector. With extensive gestation periods, infrastructure generally relied on long term borrowing but now they had to resort to short term borrowings, including the commercial paper to keep the ongoing projects afloat. More so, there are blatant conflicts of interests in almost all the projects that we have discussed so far, IAS officers are recruited by the ILFS and other alike firms and paid fat paychecks, it is obvious for the people at large to assume and imply that the officer in a highly influential position might take decisions that are to the benefit of his upcoming employer and at a cost to his present employer or the public.

The asset-liability mismatch posed a severe problem for the NBFC and can be attributed to the deployment of short term funds for the long term assets. The sudden cash infusion seems a far fetched idea given the sorry state of PSBs. Presently, there is a crisis of confidence in the entire NBFC segment. However, ILFS headed by the board of directors (mainly IAS officers) had very high credibility and confidence. This resulted in bypassing the bureaucracy on many instances

given the administration was in bed with the organization so much so that it got stalwart projects. Troubled ILF&S former top boss Hari Sankaran blamed Life Insurance Corporation of India and the present macro-economic environment for the lender's woes and denied all charges of corruption and wrong-doing.

In a 34-page affidavit (more like a rebuttal) with the National Company Law Tribunal (NCLT), he stated that LIC's (one of the principal shareholders of the ILF&S) decision back in 2015 not to support the proposed merger with Piramal group exacerbated the crisis at the group which was facing major illiquidity due to delayed projects and problems with refinancing.

"It was clear that the merger (with Piramal), once completed would have infused around Rs 8,500 crore by way of investible funds in the merged entity," Sankaran said in the affidavit. (Dave, 2018)[1]

The IL&FS has said that it has arbitration claims on National Highways Authority of India (NHAI) worth over ₹ 7,000 crores. These claims relate to payments on various infrastructure projects. Given that it is a government organization, the NHAI often prefers to opt for litigation in relation to such claims instead of settling these through discussion. This, in turn, creates problems for infrastructure companies that have agreements with the NHAI. (Mohan)[2]

This scenario shows that the government, public sector agencies and ILF&S are in deep freeze. ILF&S poses darker risks to the entire Indian economy at large apart from the direct risk it poses to the central government through PSBs.

Moreover, the projects under ILF&S involve the participation of the state government and are 'systemically important'. Thus, a possible scenario wherein the central government decides to

[1] https://www.epw.in/journal/2018/45/h-t-parekh-finance-column/ilfs-was-avoidable-crisis.html
[2] https://www.epw.in/journal/2018/45/h-t-parekh-finance-column/ilfs-was-avoidable-crisis.html

bailout ILF&S may seem legit. However, right before the general elections bailing out a private firm with insurmountable losses, would dent the entire fiscal deficit commitment.

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