



The next debt servicing for JRPICL and WGEL is scheduled on 21 January and 31 January respectively. ANURUDHA CHOWHURY/MINT

2 IL&FS subsidiaries seek refund of debt repaid after 15 Oct

Tanya Thomas
tanya.t@mint.com
MUMBAI

Two subsidiaries of IL&FS Transportation Networks Ltd (ITNL) have decided to stop debt repayments and have sought refunds of debt repaid after 15 October, India Ratings said Tuesday, warning such action would lead to a default rating and threaten infrastructure project finance using special purpose vehicles.

India Ratings said the two subsidiaries wrote to their debenture trustees last week citing a bankruptcy appeals panel order, and confirmed it has seen the letters. *Mint* could not independently verify this.

According to data on the India Ratings website, the two subsidiaries are Jharkhand Road Projects Implementation Company Ltd (JRPICL), which has outstanding non-convertible debentures (NCDs) of ₹1,730 crore, and West Gujarat Expressway Ltd (WGEL), with outstanding non-convertible debentures of ₹44,26 crore. The next debt servicing for JRPICL

and WGEL is scheduled on 21 January and 31 January, respectively.

Last October, IL&FS, the parent company of ITNL, had filed an application at the Mumbai bench of the National Company Law Tribunal (NCLT) asking for a moratorium on creditor proceedings against itself and its subsidiaries. On appeal, the National Company Law Appellate Tribunal (NCLAT) passed an interim order on 15 October granting a temporary moratorium till final orders are passed. The case is still being heard at the NCLAT.

It appears the two ITNL subsidiaries have used this interim order to demand that their lenders instruct the debenture trustees and the escrow bank to release debt repayments made after 15 October.

In a statement, India Ratings, which has rated these NCDs, said that such an interpretation

of the NCLAT order will bring "infrastructure project financing using special purpose vehicles (SPVs) under significant risk."

"These (SPVs) continue to generate sufficient cash," the India Ratings statement said. "If JRPICL and WGEL are able to stop the payments, then the ratings on the bonds will have to be downgraded to 'IND 1' (default) in line with Securities and Exchange Board of India's regulations which direct credit rating agencies to recognise defaults on the 'one day one rupee' principle. Importantly, such defaults by JRPICL and WGEL (and any other IL&FS SPV) will not only destabilise all their ratings but also raise question on the effectiveness of their ring-fenced structure."

"A financial event of default could also translate into an event of default in many concessions and result in the termination of projects," the statement added.

The firms have used an interim NCLAT order to demand that their debenture trustees release debt repayments

The NCDs are currently rated at Ind AA and Ind A, for the two subsidiaries.

While loans, NCDs and commercial papers of ITNL are now in the default cate-

gory, its subsidiaries have so far benefited from a higher rating because of their "well-defined waterfall mechanism for project finance, backed by a ring-fencing mechanism from project cash flows," the statement said. "The ring-fenced and escrow structure enables the project cash flows to remain intact until debt obligations and other covenants are met and financial agreements ensure reasonable remoteness to the sponsor's bankruptcy. Therefore, irrespective of sponsor's credit profile, the ring-fencing mechanism ensures debt service. Consequently, the SPVs ratings are often different from the sponsor rating."

All of this could go crashing into default status if the two subsidiaries have their way, the note implied.

A spokesperson for IL&FS declined to comment on the development.