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TEETHING TROUBLES IN NEW REGIME

Corporate India shares its experience as it gears up for a new company law regime



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Lending to Special Purpose Vehicles will become risky

The Companies Act 2013 is in keeping with the changing market dynamics, with a focus on investor protection and interest of minority shareholders. While the stress on corporate governance practices is welcome, it will also be one of the biggest challenges when it comes to implementation. Getting quality independent directors is a concern.

Another challenge, especially for the financial services companies, is the issue of inter-corporate borrowing. Sections 185

and 186 of the Act have put restrictions on inter-corporate borrowing. As an infrastructure sector lender, we do a lot of lending to project-specific Special Purpose Vehicles (SPVs) that are backed by holding companies. If the holding companies are not able to back these SPVs financially, lending to them will now become a riskier proposition. While the government may have tightened the rules guiding inter-corporate borrowing to avoid misuse of this route to raise funds, this has an impact on the business of infrastructure sector lenders such as IDFC.

The rules seem to have overlooked this aspect and may need to be revisited, more so for financial services companies.

The distinction between private and public companies has blurred.