Infrastructure lending is collateral damage in wake of bank scams

The entire process of financial closure for projects is likely to slow down, a problem for government's ambitious infra development goals

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Lending to infrastructure projects has been hit in the wake of the series of news about bank frauds and probes thereto.

This comes right after a number of insolvency-related problems in the sector. It has led to the expectation that banks will be more cautious in extending new credit for big-loan exposure, as in infrastructure.

In turn, the entire process of financial closure for projects is likely to slow down, a problem for the government’s ambitious infra development goals.

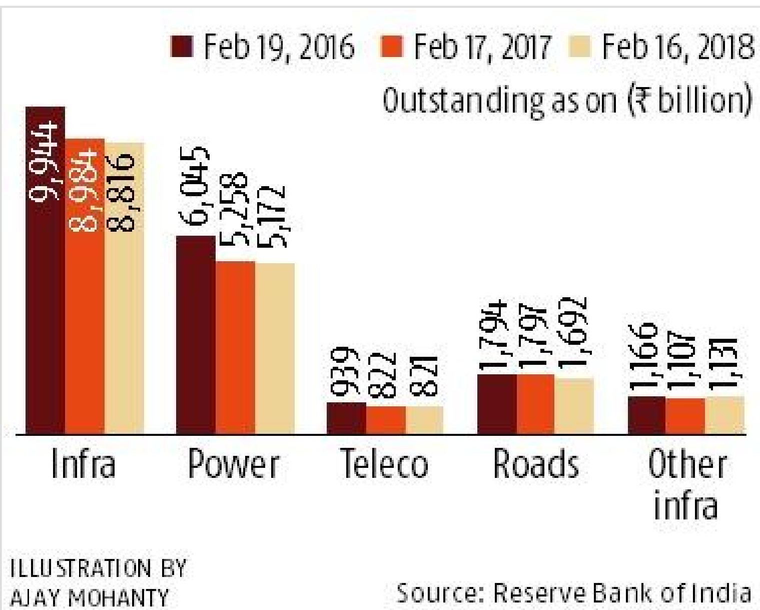
“Risk appetite of credit institutions has understandably diminished. I do, however, believe that viable projects will receive credit support,” said R Shankar Raman, chief financial officer for Larsen & Toubro.

currency volatility

He said an improvement in terms of project awards by the government in the infra sector would help credit flow.

In 2017-18, the National Highways Authority of India (NHAI) awarded 7,400 km of road projects, valued at Rs 1.2 trillion, an all-time high. Most of these are government-funded, but infra companies still need bank guarantees to win and then implement these orders.

Shubham Jain, vice-president at rating agency Icra, said they expect infra projects to face bottlenecks. “Bank guarantees are required at every stage. In bidding, then as a performance guarantee once the bid is won. Then, if you need a mobilisation advance for the project, a guarantee has to be given. This is where we see a problem arising, as banks are asking for additional collateral to issue fresh guarantees. It is an indirect effect, where banks are struggling with their own issues and are now extra-cautious in lending to a new set of bidders for projects,” he explained.



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The speed of financial closure, crucial for timely completion of projects, is also likely to feel the heat. “The overall process has slowed. Earlier, if a complete tie-up of loan took three to six months, it will now take nine to 12 months; some projects will not get a tie-up at all,” said an investment banker, who did not wish to be identified.

Adding: “Banks were anyway cautious. Now, with these scams, non-performing assets (NPAs) will go up further. That is likely to have an impact on infrastructure lending, as banks would be unwilling to take more exposure to tricky sectors like these.”

Are there alternatives to banks? “If equipment is imported, foreign funding is an option. Non-bank finance companies are another but they cannot access the bond market. Ultimately, these are all limited options; bank lending is important,” the banker replied.